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FINANCIAL TIMES

Europe's Business Newspaper WEDNESDAY NOVEMBER 18 1992 D8523A

Former minister faces probe after Iraq arms trial

Britain's Crown Prosecution Service ordered a police inquiry into evidence given by former trade minister Alan Clark at the trial of three businessmen accused of breaking an arms embargo on Iraq. In the House of Commons, UK prime minister John Major dismissed charges that he and his cabinet colleagues had repeatedly misled parliament over British arms sales to Iraq. Page 9

Brussels veto upheld The European Court of Justice reaffirmed support for the European Commission's powers to intervene directly to prevent monopolies from acting against the wider Community interest. Page 20

Anti-Mafia raids Italian police arrested 77 people in the biggest anti-Mafia sweep for nearly a decade. Police issued more than 200 arrest warrants for people suspected of complicity in organised crime. Page 20

EC wins steel battle EC producers of seamless steel tubes won an 18-month campaign against unfair trading after the European Commission found four east European countries guilty of dumping tubes. Page 7

Clinton to meet Bush US president-elect Bill Clinton will meet President George Bush at the White House today and make a symbolically important visit to a black inner-city Washington neighbourhood. Page 20

Fiat, Italy's largest private industrial conglomerate, announced a management shake-up, which aims to prepare the group for lean times and costly investment in motor industry. Page 22

London strike threat Britain's largest rail union, the RMT, called an all-out strike on the London Underground rail network from next Tuesday in protest at job losses and a new pay and conditions package. Page 10

Tokyo revival plans Japan's finance ministry announced rule changes for initial public offering procedures for stocks in an attempt to revive faltering investor interest in the country's stock market. Page 24

Albania backs down The Albanian government, facing domestic problems this winter because of severe shortages of food and fuel, is diluting its support for ethnic Albanians in the neighbouring Serbian province of Kosovo. Page 2

British Airways, the world's most profitable airline, suffered a 22.7 per cent fall in second-quarter pre-tax profits to £138m (£97m) because of the recession and a fierce air fares war. Page 21; Details, Page 28; Lex, Page 20

Yeltsin looks for investment Russian president Boris Yeltsin begins a visit to South Korea today during which he hopes to revive South Korean investment confidence in his country. Page 4; Russia makes drama out of crisis, Page 3

BASF, one of Germany's top three chemical companies, is planning to cut its workforce by a further 2,400 people next year, according to members of the works council. Page 22

Mitsubishi, Japan's biggest producer of consumer electronics, revealed the full extent of the fall in Japanese consumer demand when it announced a 65.6 per cent drop in profits to ¥77.9bn (¥544m). Page 21

ANZ banking group announced net losses of A\$79m (\$400m) for the year to end-September after bad debt provisions of A\$1.9bn. Page 21

Seiko and Casio, Japan's leading watchmakers, suffered sharp falls in pre-tax profits for the first half of the year, largely because of sluggish demand in Japan. Page 24

South Africa curbs rates The South African Reserve Bank cut interest rates by 1 per cent in response to recent data showing increased weakness in the economy. Page 4

Indian brokers strike Indian stockbrokers staged a strike in protest at the introduction of hefty registration fees, bringing trading on the country's exchanges to a halt. Page 4

Hitler watercolours Florence wants to put paintings by Adolf Hitler on permanent exhibition in its Uffizi Gallery. It has appealed to the government to stop 20 Hitler watercolours being exported when they are auctioned.

Britain backs plans to extend democracy in HK

By Alexander Nicoll and Ivor Owen in London and Simon Holberton in Hong Kong

BRITAIN told China yesterday that it strongly supported proposals by Mr Chris Patten, governor of Hong Kong, for greater democracy in the territory and that they were fully consistent with previous agreements between London and Beijing.

Mr John Major, the UK prime minister, assured Zhu Rongji, Chinese vice-premier, that Britain wished to co-operate with

China to ensure a smooth transition from British to Chinese sovereignty over Hong Kong in 1997, in accordance with the 1984 Sino-British joint declaration on Hong Kong's future.

Their 45-minute meeting in London, described by Mr Major's office as "briar and business-like", may have gone some way towards bridging the rift in Sino-British relations opened when Mr Patten announced his proposals last month. China says Mr Patten's plan is in breach of the joint declaration.

Mr Douglas Hurd, Britain's foreign secretary, discussed Hong Kong at length with Zhu during an hour-long meeting which the UK Foreign Office said was "very amicable".

Mr Hurd told Zhu that Mr Patten's proposals represented no change in British policy on Hong Kong and that they were consistent with the joint declaration and the Basic Law, Hong Kong's post-1997 constitution. He invited counter-proposals and further discussions.

Zhu aroused concern in Hong

Kong with remarks in London on Monday which suggested that the dispute might affect economic relations between Britain and China. He asked rhetorically whether, following Mr Patten's proposals, the joint declaration should "go with the wind".

Share prices in Hong Kong fell in response, with the Hang Seng index dropping 206.31 yesterday to 6,088.62 in heavy trading. Zhu is understood not to have repeated the implied threats in yesterday's meetings.

Mr Patten, who is also in Lon-

don for discussions with Mr Major and Mr Hurd, told journalists at Westminster: "I hope that we can enjoy a calm and rather cooler debate over the next few months. But it's very difficult if all that happens when you put forward proposals is that some people say 'no', albeit very loudly."

Describing his proposals for extending democracy as evolutionary rather than revolutionary, he said: "What the people of Hong Kong want is a rather larger share in running their own

affairs, but delivered in a way which is more likely than not to be sustained beyond 1997."

Mr Major told Zhu of Britain's concern about human rights in China - during his visit to Beijing last year, he gave Chinese leaders a list of names of people suspected to be political prisoners.

Lord Howe, the former UK foreign secretary, is to follow this up by leading a six-member

Continued on Page 20
World stocks, Page 40

Time ripe for deal on farm dispute says Dunkel

By David Dodwell in Washington, David Buchanan in Paris and David Gardner in Brussels

MR Arthur Dunkel, director general of Gatt, insisted yesterday that the time had come for the US and the European Community to settle the farm trade dispute, saying agreement would involve painful compromises.

Settlement "will mean we will not get everything we want," he warned.

The director-general of the General Agreement on Tariffs and Trade was also emphatic, after meetings in Brussels with EC trade negotiators last week, and similar talks in Washington this week, that he detected a new determination to reach agreement when talks resume tonight: "I have found two commissioners in Brussels who are convinced they are coming to Washington this week to settle. I have found the same mood here," he said in the US capital.

As he left Brussels for Washington, Mr Ray MacSharry, the EC farm commissioner, said: "I'm there to do business and I hope they are there to do the same. The world wants it and the world needs it."

US officials were more cautious on the eve of the first US-EC talks since the collapse of farm trade negotiations in Chicago two weeks ago. Mr Ed Madigan, US agriculture secretary, said: "We feel that we are clearly at the outer limit of what we can do."

The dispute, which focused on EC diseased subsidies as well as demands for reform of the EC farm subsidy regime, has brought the two sides to the brink of trade war, and put in jeopardy

six years of negotiations aimed at liberalising international trade.

In the negotiations, the US will, above all, press for the EC to provide methods of enforcing the farm production levels that are eventually agreed.

So far, the EC has said that it cannot offer any specific enforcement mechanisms, demanding that the US take on trust that the Community's reforms of its Common Agriculture Policy will deliver the production cuts demanded.

The French farm lobby yesterday displayed mounting concern about an imminent Gatt agreement on agriculture. It pressed the French government to veto any EC deal on US terms.

Mr Luc Guyot, head of FNSEA, the biggest farming union, said the fact that the EC Council of Ministers had instructed Mr MacSharry to continue the talks where he had left them two weeks ago in Chicago was enough for his union to start planning for the future.

For his part, Mr Jean-Pierre Soisson, French agriculture minister, indicated that a veto by Paris was unlikely. He appeared to state France's price for a Gatt deal: "a review and renegotiation" of last May's EC agricultural reform "to take account of French farmers' legitimate interests."

Mr Soisson also insisted that France had won more support than the European Commission and the UK presidency of the EC claimed. "There have been two councils [of ministers] going on here, the real one and the one described by the British press."

Continued on Page 28
Curtain set to fall, Page 5

Austria gives temporary haven to Bosnians barred by Major

Britain under fire on refugee policy

By Ivo Dawson and Sheila Jones in London, Frances Williams in Geneva and Judy Dempsey in Bonn

THE BRITISH government was thrown on the defensive yesterday as a political outcry greeted its refusal to accept as refugees 183 Bosnians stranded on the Slovenian border with Austria.

Opposition parties charged the Conservatives with callous inflexibility and one Liberal Democrat MP drew parallels with the repatriation of German Jews by Britain in the 1930s. Aid officials and Amnesty International also condemned the British decision.

Mr John Major, the UK prime minister, countered opposition attacks in the House of Commons by insisting that the refugees were no different from 2m other displaced people in former Yugoslavia.

He repeated earlier pledges that the UK would take some 600 recommended by the International Red Cross and the United Nations High Commission for Refugees and was ready to look at further cases. He insisted that a distinction had to be drawn between economic refugees and legitimate cases for asylum from those facing persecution.

"With the best will in the world, we simply cannot take everyone who, for understandable reasons, wants to leave Yugoslavia," Mr Major said.

So far, Britain has taken in far fewer refugees than some other European countries. Since Yugoslavia's disintegration more than a year ago, the UK has taken 4,000 Yugoslav refugees compared to Germany's 253,000. Sweden and Switzerland have taken more than 70,000 each, while about 50,000 have gone to both Austria and Hungary.

The 183 refugees were bused to the Austrian border by Alert, a charity based in the northern English city of Leeds.

Austria said yesterday it would



One of a group of 183 Bosnian refugees waits at Wurzenpass on the border between Slovenia and Austria for a visa which will allow entry to Britain

provide the refugees rejected by Britain with shelter for three months until permanent sanctuary could be found.

Mr Kenneth Clarke, the UK home secretary, defended his refusal to accept all but six of the refugees on the grounds that they failed to meet criteria laid down by the authorities.

"Imposing visa requirements on people who are hardly in a position to get them is cruel and immoral," Mr Claude Moraes,

director of Britain's Joint Council for the Welfare of Immigrants, said yesterday. "The message is that the government does not want refugees to come to Britain at all."

Mr Chris Lamb, an Alert official who has been at the Austrian border with the refugees, said on BBC radio that the British authorities had obstructed the charity's efforts to fulfil visa requirements, and that they had never been told by the govern-

ment not to go to the border. In Bonn, the foreign ministry said all European Community countries had to share the burden in providing security and shelter to tens of thousands fleeing the war in Bosnia.

The United Nations Commission for Refugees repeated its appeal to all countries to keep their borders open for those fleeing the conflict.

Ethnic cleansing, Page 20

Lithuanian poll winner to build links with Russian bloc

By John Lloyd in Vilnius

MR ALGIRDAS BRAZAUSKAS, leader of the former Communists who this week won a general election in Lithuania, said yesterday that he had built strong links with the centrist Russian Civic Union bloc now bidding for power in Moscow - and that he expected these forces to prevail in Russia soon.

In an interview with the Financial Times, Mr Brazauskas, whose Democratic Labour party won an absolute majority in the Lithuanian parliament, said he would continue to encourage foreign investment but would also strive to safeguard Lithuania's economic links with Russia.

Russia and the other former Soviet republics still provide most of Lithuania's supplies and take most of its output.

"The former government said

everything would come from the west - but where is it? They said we would get western investment. I don't see it," he said.

Mr Brazauskas is thought to prefer a gentler course to a market economy to western-style shock therapy. His views accord with the criticism voiced against the Russian government by General Alexander Rutskoy, the Russian vice-president, and Mr Arkady Volsky, head of the Russian Union of Industrialists.

The election winner reiterated his belief in market reforms, however. "We will continue our agreements with the International Monetary Fund, but they must understand that one third of the people live in poverty and that we may be on the verge of hunger in some areas," he said.

Mr Brazauskas, 50, said he would delay holding an election for a president for at least six

months after his party takes power pending discussions with political parties and the passing of an electoral law. Mr Brazauskas will be chairman of the parliament, as was President Vytautas Landsbergis whose Sajudis nationalist movement lost Sunday's poll, but he did not say whether he would run for the presidency.

He reiterated that his party, the successor to the Lithuanian branch of the Soviet Communist party, would now be social democratic and not communist.

On Monday evening, the constitutional court annulled a decision by a commission in the outgoing parliament to examine any links between new MPs and the former Soviet KGB. Observers from the Council of Europe had voiced concern on this decision and on other irregularities in the Lithuanian poll.

STOCK MARKET INDICES

FT-SE 100	2,772.2	(-0.4)
Yield	4.38	
FT-SE Europe 100	1,865.82	(-2.65)
FT-SE All-Share	1,272.28	(-0.05)
Nikkei	15,989.48	(-168.51)
New York Composite	2,208.53	(+3.79)
Dow Jones Ind Ave	2,208.53	(+3.79)
S&P Composite	428.71	(+0.03)
2 Index	78.1	(77.8)

US LUNCHTIME RATES

Federal Funds	5.1%
3-Month T-bill	5.25%
Long Bond	100%
Yield	7.50%

LONDON MONEY

3-Month Interbank	7.5%
Libor 3-Month	7.5%
Libor 6-Month	7.5%
Libor 12-Month	7.5%

NORTH SEA OIL (Argus)

Break 15-day (Jan)	\$19.175
15-day (Jan)	\$19.175

Gold

New York Comex (Nov)	\$354.4
London	\$354.16

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Russia makes drama out of economic crisis

Politics holds the centre stage, writes Leyla Boulton

AN AIR of unreality has crept into the tortured debates on how to save the Russian economy from catastrophe. Politicians talk about merging economic programmes which are little more than rival collections of slogans, while economists are unable to tackle real economic problems because politics get in the way.

The most imminent danger for the country is hyperinflation, which could destroy most of the real progress made in building a market economy. Yet the melodramatic nature of Russian politics means that most of the government's energies are focused on surviving the December session of the super-parliament which has threatened to remove it from office.

In the interim, the government's policy consists of talking in reassuring tones but acting in a manner which suggests chaos within, even as it

Mr Viktor Gerashchenko, central bank chairman, said yesterday that President Boris Yeltsin's decision to include him in the government would not mean greater government control over monetary and credit policy, writes Leyla Boulton. He said he remained answerable first of all to parliament, even though he welcomed moves to strengthen co-operation with the government.

It also emerged yesterday that Russia has decided to withdraw its first \$1bn credit tranche from the IMF after months of hesitation, expressed primarily by the central bank.

continues to make slow headway in building a market economy with privatisation and other structural changes.

The ambitious aim of its six-month anti-crisis programme, announced on Monday, is both to boost social welfare spending and to stimulate collapsing output with a selective industrial policy. With inflation running at more than 25 per cent a month, the government has just come up with an equally unrealistic 1993 budget that assumes 70 per cent inflation for the whole of next year and a deficit of just 4.8 per cent of gross domestic product. But neither financial stabilisation nor an industrial policy are possible until Russian authorities make the crucial choice of 'closing down enterprises and making more selective use of scarce resources.'

It is not even clear how far the anti-crisis plan is a real

policy. In another symptom of what one western academic called "programmids" - a Russian habit of producing programmes which are discarded two months later - Mr Yegor Gaidar, the acting prime minister, last week agreed to make alterations to the anti-crisis plan with the help of Mr Arkady Volasky, the head of the industrialists' lobby and a key figure in the Civic Union opposition group.

The picture is not all dark, though. Privatisation is going ahead, and enterprise managers are gradually changing their behaviour in response to market notions like demand and supply. But this fragile progress may be severely disrupted if hyperinflation becomes an everyday reality. The government will then face a choice of trying to reimpose state price controls and the centralised distribution of goods and services, or of trying to get its printing presses to keep up with soaring wages - something they failed to do earlier this year when prices were liberalised.

Some of the problems facing the government have no easy answers and will take time for instance, establishing normal relations with the other former Soviet republics which are now independent states. This includes the need to establish a clearly defined rouble zone and concerted monetary policies with republics that continue to use the rouble, and keep trading links with those which opt for their own currencies.

On Monday, President Boris Yeltsin ordered his government to enforce world prices supplies of Russian energy to other republics. However, Russia has very little choice but to create credit for these mostly bankrupt republics if it wants to continue receiving supplies from monopolistic factories built originally in these republics on the assumption that the Soviet Union would remain a single country.

Meanwhile, the west is saying that Russia must observe undertakings to the International Monetary Fund before it can get access to more of a \$24bn aid package. Yet this package in itself is nothing near the sort of help Russia needs to face unprecedented challenges.

The US, for instance, is pushing for a rapid debt rescheduling which will be paid for largely by the Germans, but is closing its own market to Russian exports like uranium and telling Russia which countries it cannot sell arms to.

Relations between Mitterrand and the Socialists have sunk to a new low

French president parts company with party

By William Dawkins in Paris

RELATIONS between Mr François Mitterrand and France's governing Socialist party have sunk to an all-time low in the past few weeks as the president prepares for life after the Socialist administration.

Both sides have increasingly distanced themselves from each other on a whole range of issues, ever since the traumatically close referendum on European union in September, called by Mr Mitterrand against the advice of several senior Socialists.

What are they up to? Mr Mitterrand is seen by the French press as trying to bolster his personal power to make life difficult for the conservatives, who are on course for a landslide victory in the legislative elections on March 21 and 28.

The Socialists, meanwhile, are said to be resigned to growing apart from an ailing and unpopular president, who might not last the course until the end of his mandate in spring 1995.

While nobody in France is as clever as Mr Mitterrand in dividing the right-wing opposition, politicians on both sides suspect he is equally keen on tripping up his own party. Mr

Jacques Chirac, leader of the RPR conservative party, dubbed Mr Mitterrand as "the inventor of permanent civil war as a method of government," in a recent newspaper interview.

Other critics believe Mr Mitterrand wants to snub both sides of French politics at once to reflect voters' general dissatisfaction with the political class, a tactic reminiscent of General de Gaulle's attempts to strike an intimate relationship with the electorate over the head of parliament.

The latest and most dramatic sign of the split between Mr Mitterrand and his troops came with his recent call for a parliamentary high court inquiry into former Socialist ministers' part in a scandal over the distribution of blood infected with the HIV virus. If the case gets through its complex administrative process, which it easily could, the chief defendant some time early next year would be none other than Mr Laurent Fabius, the party first secretary, until recently regarded as the president's chosen *dauphin*.

The noose tightened yesterday when the standing committee of the senate, the upper house of parliament, approved manslaughter and fraud



Leaders of France's two main Green parties outside parliament after signing an electoral pact, (from left): Dominique Voynet, Brice Lalonde, Danielle Olivier-Koeret and Antoine Waechter.

charges - the first step to a trial - against Mr Fabius and two other former Socialist ministers, Mrs Georgina Dufoux and Mr Edmond Hervé.

All three deny the charges and say they look forward to this chance to clear their names against what they say is a political campaign by the conservative-dominated senate.

They have the clear support of all senior Socialists except for Mr Mitterrand, who has said non-committally that the constitution must do its work.

Asked on television whether he felt betrayed, Mr Fabius said he would rather keep his thoughts to himself. A leading Fabius supporter, Senator Daniel Percheron, was more blunt.

"Mitterrand has led us to understand that we are alone and responsible for ourselves," he said.

The blood scandal is only the most dramatic of a series of clashes between the president and his party.

Other examples include Socialist MPs' recent refusal to accept Mr Mitterrand's plans to

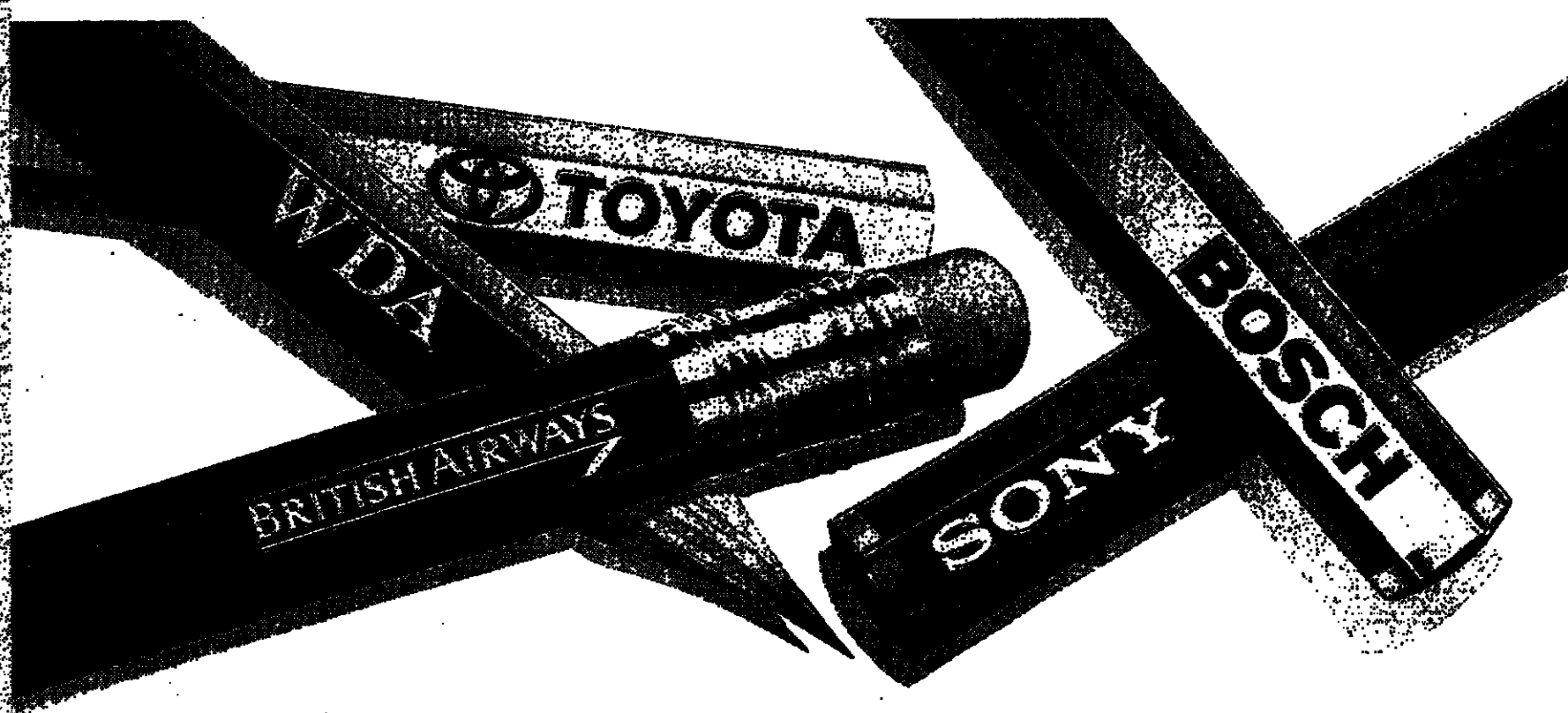
ban business donations to political parties, and the president's encouragement of *Génération Ecologie*, led by a former environment minister in the Socialist government, which two weeks ago turned its back on the Socialists by forming an electoral pact with France's other main ecology party, the Verts.

Mr Mitterrand, meanwhile, enraged his party on Armistice Day by sending a wreath to the grave of Marshal Philippe Pétain, reviled by many French people for collaborating with Germany as leader of the Vichy regime during the second world war.

The president has discreetly done this every Armistice Day for the past seven years without attracting a row, as a gesture likely to appeal to a minority of older right-wing voters who remember Pétain as a hero of the first world war.

But this time the Socialist party was not prepared to turn a blind eye to what Mr Henri Emmanuelli, speaker of the parliament, condemned as an "incomprehensible" gesture. However, Mr Mitterrand rarely acts without a clear motive, even if he is the only one to understand it at the time.

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Ukraine accuses state oil officials

By Chrystia Freeland in Kiev

UKRAINE'S state oil monopoly, Ukrneftokhim, was dissolved yesterday amid allegations that senior officials had amassed huge personal profits by reselling oil purchased from Russia at subsidised prices.

The allegations, made at a press conference yesterday by Mr Yuli Ioffe, deputy prime minister, are part of a wider anti-corruption drive launched by the new government of Mr Leonid Kuchma, Ukraine's

recently-appointed prime minister.

Mr Ioffe alleged that a senior Ukrneftokhim official had pocketed \$4m by re-exporting oil to a middle-man in the US.

Mr Ioffe also accused the energy ministry of skimming off profits through complicated barter arrangements for the sale of electricity to eastern Europe. He said the state prosecutor was investigating these cases of alleged government corruption and was likely to press charges.

Czechs and Slovaks vote on final split

By Vincent Boland in Prague

THE FINAL constitutional hurdle in the way of the smooth dissolution of the Czechoslovak federation was cleared yesterday. The Czech and Slovak republican parliaments passed a joint resolution authorising the split into two independent republics from next January 1.

The passing of the resolution ends months of wrangling and uncertainty over how the federation should be dissolved, with a majority of deputies in the federal parliament holding out for a referendum on the division of the federal state.

Yesterday's resolution is expected to be endorsed by the federal parliament, however, thus ruling out a referendum.

The resolution was passed by 106-67 in the Czech parliament and by 78-16 in the Slovak parliament.

Also yesterday, Mr Vaclav Havel, Czechoslovakia's former

president, confirmed that he would be a candidate for the post of president of the Czech republic after January 1. "I am aware of my responsibility for the political situation in this country and I want to influence it," he said.

According to an opinion poll published earlier this month, 57 per cent of Czechs would like Mr Havel to become their president after the split. The next most popular politician, Mr Vaclav Klaus, prime minister, polled only 5 per cent.

Mr Havel has so far said that he favours a direct presidential election in the Czech republic, but members of the ruling Czech coalition have expressed their support for a parliamentary vote, which could take place next spring.

The Czech parliament is currently discussing a draft constitution for the republic which would limit the presidential powers, making the post largely ceremonial.

NEWS: WORLD TRADE

EC victory in steel tube dumping fight

By Andrew Baxter

EC producers of seamless steel tubes have won an 18-month campaign against allegedly unfair trading after the European Commission found four east European countries guilty of dumping tube in the \$500m Community market.

The Commission's verdict has been greeted with relief by the west European industry. Imports of seamless tubes, used widely in the engineering sector, had rapidly reached an intolerable level across the EC, but especially in Germany and Italy, the Commission said.

The decision is important for seamless tube producers such as Mannesmann of Germany and Dalmine, part of Italy's Ilva group. Vallourec of France and British Steel. Over the past two years, the Commission said, 11 EC tube mills had closed, with 18,000 jobs lost in the past six years.

Mr Raymond Barbier, secretary-general of the EC steel industry's liaison committee, said yesterday the east Europeans' share of the EC market had jumped from 7.8 per cent in 1988 to 13.4 per cent this year, reaching 18 per cent in 1993.

The liaison committee lodged an anti-dumping complaint in May last year, and the Com-

mission opened an investigation in December. It now says the case is fully justified, serious injury has been caused to the EC industry and dumping prices have been used.

"To try to resist the proven dumping of these four countries, Hungary, Poland, Czechoslovakia and Croatia, EC producers had to reduce sales prices on several occasions, without succeeding in reducing the flow of these imports," the Commission said in its judgment.

"All the Community producers are in difficulties, and further plant closures and job losses are feared."

From November 15, all seamless tube imports to the EC will incur 21.7 per cent duty for Hungary, 10.8 (Poland), 30.4 (Czechoslovakia) and 17.4 (Croatia). The Croatian duty will be temporarily suspended because the civil war has severely disrupted exports.

Seamless tubes are not covered by the 1991 European Coal and Steel Community treaty under which main European steel producers are seeking urgent action from the EC against allegedly subsidised east European imports. But the problems of the tube producers and the general steel industry are "absolutely similar," Mr Barbier said.

Unctad to build trade information network

By Frances Williams in Geneva

THE United Nations Conference on Trade and Development (Unctad) plans to set up 19 "trade point centres" by mid-1993, paving the way for development of a global information network for international trade.

The centres are intended mainly to help small and medium-sized companies in both rich and poor countries, to reduce the cost of trade transactions and gain better access to world markets by exploiting information technology and electronic data systems now used routinely by big corporations.

Officials say widespread adoption of paperless trading alone could cut transaction costs 25 per cent by the year 2000. The UN puts these costs at \$300bn (£198.6bn), some 10 per cent of world merchandise trade, implying potential global savings of \$75bn.

Fears exist that small companies, especially in developing countries and eastern Europe, could face exclusion from an increasingly globalised trading system based on paperless transactions.

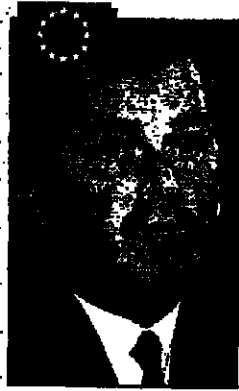
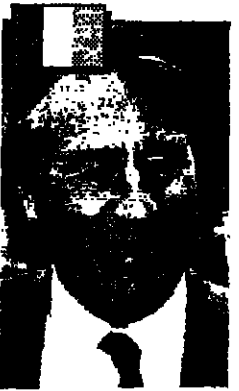
"Unctad's main concern is that everyone is able to share equally in the modern technology," says Mr Jean Garamian, head of Unctad's trade efficiency programme.

Experts from 70 countries meet in Geneva this week to discuss implementing Unctad's plan. Experience from about 19 pilot projects will be considered at a world symposium on trade efficiency set for 1994.

The centres are financed mainly by governments and/or the private sector, though the US, Switzerland, Germany and Italy have contributed to Unctad's development work. Companies will pay a fee to use the centres, eventually to be linked in a global network.

The idea is to bring together all participants in a trade transaction (buyers, sellers, banks, insurers, customs authorities), the technology used depending on the country's level of development.

Main protagonists

Ray MacSharry
European
Commissioner
for agricultureFrans Andriessen
European
Commissioner
for external affairsJacques Delors
European
Commission
presidentJean-Pierre Soisson
French agriculture
ministerEd Madigan
US secretary
of agricultureCarla Hills
US trade
representative

Curtain set to fall on Gatt drama

ONE of the world's longest-running theatre productions, the Uruguay Round, may be nearing its final curtain at talks in Washington tonight and tomorrow, as the EC and US try to settle rows over competing food exports, and clear the way for far-reaching trade reform.

Since the Round was first staged six years ago, critics agree it is worthy, but tedious to watch. But in its final scenes, the dramatic personae have sparked flashes of melodrama, enlivening the tale for those who sat through the monotony, and those wanting a happy ending.

The Americans woke the audience by introducing trade war into the plot: a battery of \$300m (£198.6m) punitive tariffs on EC food exports from December 5 unless the Europeans please US soyabean farmers by agreeing a ceiling on EC oilseeds output. Another \$1.7bn of US sanctions could follow, with the EC hitting back over US goods.

The chemistry of relations either between US negotiators, or US negotiators and their EC counterparts, has probably influenced the Round less critically than the volatile relationships at the EC's highest echelons. Mr Ed Madigan, US agriculture secretary, has said negotiating with the EC is like doing so with the Keystone Cops; US officials have said differences of opinion at the top of the EC have led to paralysis.

Mr Madigan and Mrs Carla Hills, US trade representative, draw their authority from President Bush, and have always entered talks with a clear brief defined with his agreement. Mrs Hills has been as subject to the lobbying influence of US farmers as Mr Madigan, and has apparently not disagreed with him over the "bottom-line" positions the US should adopt to a farm trade deal.

The transatlantic chemistry has helped progress to a deal. As two Irishmen, Mr Ray MacSharry, EC agriculture commissioner, and Mr Madigan appear easy with each other. Mr Madigan's complaints have never been pointed at Mr MacSharry, although US and EC bottom-line positions remain frustratingly irreconcilable. It is yet to be seen if these positions can come closer.

The chemistry has helped, too, in the relationship between Mrs Hills and Mr Andriessen. The two have come to know each other well, and caused Mrs Hills' rather humourless, lawyerly qualities to soften. Mr Andriessen is seen to have played a role in counselling Mrs Hills on French obsessions, encouraging her to moderate retaliation over oilseeds. Mrs Hills' legal background must help explain her indignation over EC refusal to bow to two Gatt panel rulings against its oilseeds subsidies. She believes she fought and won fairly two legal battles, and is outraged at EC prevarication.

Mr Dunkel, who entered the frame for the first time this year when mandated by Gatt

to mediate between the US and the EC, has spent the 11 months as a spectator, his patience and conciliation tested to the extreme. He knows his intermediary role has limited effect. He hovers at the margins, reminding negotiators more is at stake than farm trade, and more countries' interests are involved than just the EC and US. If he thinks important negotiating time has been spent on the US-EC farm row, he has been successful, veiled as normally in a cloud of Gatt smoke, in hiding it.

The Europeans, coming from 12 wrangling nations, offer a

more numerous cast, leading to US complaints that Washington never knows who speaks for the EC: the European Commission, the Council of Ministers, France, Germany, or the UK. This is a trifle disingenuous, since the US administration often appears to European eyes as an archipelago of agencies acting out competing subplots. The Americans have a point.

There are a lot of Euro-players, frequently seeming to read from different scripts. The

main ones have been: Mr Ray MacSharry, Mr Frans Andriessen, external affairs commissioner; Mr Jacques Delors, Commission president; and Mr Jean-Pierre Soisson, Mr John Gummer and Mr Ignaz Kiechle, agriculture ministers respectively of France, the UK and Germany. Mr MacSharry, the bruiser in the Euro-cast, sticks obstinately to his line when he has made up his mind. The Americans like dealing with him because of this consistency. "The first thing I do when I go into talks is put myself in the other fellow's seat," he said a year ago, as he started bludgeoning 12 unanimously opposed EC agriculture ministers into agreeing the farm reform, ostensibly the basis for the Round's negotiations.

Mr MacSharry's public row with Mr Delors 10 days ago helped force the EC camp into deciding if it would (more or less) unite to try to negotiate a deal, or prepare for transatlantic trade hostilities. Mr Delors, whose vision relaunched Europe to greater integration, was accused of siding with France on the farm question. Some of his colleagues suspect he nurses ambitions to be its president. His attempts to restrain Mr MacSharry from reaching what he sees as a deal too favourable to the US partly reflects a desire for Europe to stand up to its "big brother", and a romantic attachment to rural France which he fears will erupt in fire if French farmers feel sold out. The dispute

with Mr MacSharry has damaged him in Europe, but may end by enhancing his reputation in France.

Mr Andriessen has guided the other strands of the Round towards its end. Ranging from services to intellectual property, they are more important but less contentious than the farm issue. Mr MacSharry has clashed with him frequently, believing him too accommodating to the US. The Commission negotiates on behalf of the EC, mandated by national ministers who appear further down the acting credits. The ministerial mandate comes from their national leaders, often making it hard to distinguish between their performances for the gallery and their underlying role in the plot.

Pivotal is Mr Kiechle from Bavaria. The central problem of EC agriculture is that its prices have been set to match the high costs of a long-standing German farm structure. When he was cajoled by his divided German coalition partners to agree sharp price cuts in May, farm reform was in the bag, hard.

Mr Soisson is the unhappiest member of the cast. Given the farm job barely a month ago with explicit instructions to stop any deal inimical to French farming, he fast found any deal would be worse than what French farmers have been told. But his suggestion that Frenchmen should drink more white wine targeted by US sanctions has added force to the plot.

Kuwait to go ahead with \$2bn petrochemical plant

KUWAIT will proceed with plans to build a \$2bn petrochemical complex even if it cannot find a foreign partner, Mr Ali al-Baghl, the Gulf state's new oil minister, said, Reuters reports from Kuwait City.

He said Kuwait would prefer to work with a foreign company which could provide technical expertise and help with marketing the products and training Kuwaiti staff.

But he added: "If it does not

reach agreement with a foreign partner...the company will proceed with implementing the project without foreign participation."

The project was approved in principle before the Iraqi invasion in August 1990, and state-owned Petrochemical Industries Company (PIC) has been looking for a partner to revive it since the liberation of Kuwait last year.

The complex would produce ethylene and its derivatives.

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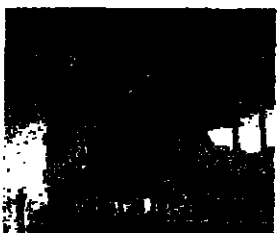
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NEWS: INTERNATIONAL

Long trek ahead for S Africa on the road from apartheid

F.W. de Klerk remains the only person who can complete the country's democratisation process, writes Patti Waldmeir

THREE years after President F.W. de Klerk started South Africa's trek away from apartheid, the most positive thing to be said about him is that only he can complete the process: if, indeed, it can be completed at all.

Whether or not he knew about the criminal force perpetrated by his security forces against the African National Congress (ANC), whether or not he suspected, as must now be suspected, a deliberate policy to destabilise and undermine his political opponents; whether or not he is, as must be open to doubt, the "man of integrity" whom ANC President Nelson Mandela once trusted; the fact is that the new South Africa cannot be born without him.

But after Monday's revela-

tions of low-life trickery from the military (involving an intelligence plot to use criminals and prostitutes to infiltrate the ANC's military wing), coupled with growing suspicions of far worse official crimes, doubts have been raised whether President de Klerk has the will, stamina, tact and skill to deliver a new multi-racial democracy.

To prove he has, he must take action to tame his security forces, or abandon hope of a new South Africa. Failure would suggest that he is either too weak or too devious to succeed.

The consequences of failure are already apparent. South African society is in crisis on almost every level: every week brings revelations of official plots to discredit the ANC and new allegations of official

assassinations; every day seems to bring to light a new government corruption scandal, an unedifying display of venality and incompetence which may have cost South African taxpayers billions of rands.

True to the traditions of Africa, a continent scarcely renowned for governmental probity, no ministers have resigned as a direct result of scandal. But the cabinet has been severely weakened none the less, as some of the most able ministers have resigned due to ill health or mental or marital problems.

Meanwhile, black families continue to be massacred as politicians demonstrate lack of will to stop the violence. Leaders of the parties who signed a national peace deal last September (including the ANC and

the mainly-Zulu Inkatha) refuse even to meet to discuss its implementation.

And the dark mood of the nation is further blackened by economic decline. South Africa is completing its fourth dreary year of recession, and good rains to break the drought cannot on their own guarantee substantial recovery.

Only a political deal on a new constitution can achieve that, but progress is painfully slow. Moderate ANC elements

as well as moderates in Pretoria demonstrate the will to do a deal to govern South Africa in the transition to full democracy, but they have agreed few details. And even if they do, both sides may face sabotage from their own stubborn radicals.

The two main players, government and the ANC, are due within a fortnight to retreat to a marathon negotiating session of up to a week. But such evidence of cozy collusion enrages

Chief Mangosuthu Buthelezi, leader of Inkatha, and peace in Natal can never be guaranteed as long as he remains estranged from negotiations.

Revelations from the respected Goldstone Commission into political violence have cast a further shadow on the president's reputation. Mr Justice Goldstone, never one to jump to unwarranted conclusions, clearly believes that he is on the trail of a Third Force of security force members used

to destabilise the ANC. Others, less circumspect, insist a Third Force had at least some role in fomenting the violence which has left thousands dead since Mr de Klerk took power.

Mr de Klerk has consistently shied away from his most difficult problem: how to rein in the security forces, to ensure that they operate impartially but without provoking a revolt. South Africa's political violence cannot be tackled until the organs of state security prove their legitimacy and commitment to law and order.

With their wild West morals and conservative political views, that will not be easy.

But, as South African political scientist Frederik van Zyl Slabbert points out, "a new government, particularly a democratically elected one, that inherits a recalcitrant

civil service and especially an antagonistic security force is a recipe for disaster and will make short shrift of any democratic constitution."

Much will depend on whether President de Klerk can regain the initiative lost in recent months. His strategy demands a position of strength. His goal is to legitimise the political system while retaining a substantial share of power for whites. In other words, to reform, not to revolutionise.

But to reform the state is far more difficult than to destroy it, as Mikhail Gorbachev can attest from his reformist experiment in the former Soviet Union. The next few months will tell whether Mr de Klerk can succeed where Mr Gorbachev so tragically failed.

Editorial Comment, Page 18

Labor hit by report on loss by state bank

THE Australian Labor Party's formerly strong grip on state governments was further weakened yesterday by a damning royal commission report on losses of A\$3.1bn (\$1.4bn) incurred by the State Bank of South Australia, writes Kevin Brown in Sydney.

The report found no evidence of corruption or illegal activity by the South Australian Labor government. However, it said the state government should have known about the bank's serious financial problems.

The report was severely critical of Mr John Bannon, the state premier and treasurer (finance minister), who quit in September to take the political blame for the bank's losses.

Mr Samuel Jacobs, the royal commissioner, said Mr Bannon interfered in the bank's commercial activities, and failed to monitor its rapid asset growth or take action to deal with its growing problems.

Mr Bannon, a former Labor Party federal president, said he had been kept in the dark about many of the bank's activities. He rejected the commissioner's findings as "extremely hurtful and unfair." Mr Lynn Arnold, the premier, distanced the government from the report, which he said failed to establish how the bank's problems could have been avoided.

Indian brokers in strike over fees

By Stefan Wagstyl in Calcutta and R C Murthy in Bombay

INDIAN stockbrokers yesterday staged a strike in protest at the introduction of hefty registration fees, bringing trading on the country's exchanges to a halt.

The strike will do nothing to restore investors' confidence in the market, which has suffered this year from the Rs35bn (\$812m) Bombay securities market scandal.

Furthermore, it will aggravate the danger of defaults among investors and brokers since a rapid fall in share prices in recent weeks has strained finances. The Bombay stock exchange (BSE) index has fallen by more than a fifth in the past month.

It was not clear last night which exchanges would open today.

Brokers were expressing their anger at the actions of the Securities and Exchange Board of India (Sebi), the newly established industry watchdog.

The watchdog has proposed charging a registration fee of Rs5,000 plus a turnover fee of 0.01 per cent of turnover. This has angered brokers because the revenues they raise from trading vary greatly between different kinds of business, such as own account trading and client account trading.

Mr Ajit Day, president of the Calcutta Stock Exchange, said the proposed

fees were "ridiculous".

Earlier this year brokers staged a two-week strike when the watchdog first introduced the principle of registration. But the authorities eventually got their way. This time, too, the brokers' protests could well fail since many firms would be unable to sustain a long suspension of trading.

The president and vice president of the Bombay stock exchange will meet Mr G V Ramakrishna, chairman of Sebi, this morning ahead of a general meeting of the brokers at the exchange.

The strike coincides with the arrest of a leading Calcutta stockbroker on allegations of fraud in the latest twist in a payments crisis which has paralysed trading for a week.

The exchange was closed after brokers noticed forged documents being passed in settlement transactions. The market was re-opened partially yesterday.

Mr Day said about eight of the exchange's 630 members had serious problems settling claims totalling about Rs150m-Rs170m.

Mr Day, who represents the fifth generation of his family in stockbroking, regretted the fact that the crisis had blown up after Calcutta had avoided any involvement in the scandal which this year hit the Bombay market. He named the broker as Mr Dilip Dugar, head of a firm called Bajrang Lal Mahabir Prasad.



INDIANS QUEUE FOR SHARES: Hundreds of Indian investors queue outside a New Delhi bank yesterday to file applications for shares in Indian Petrochemicals Corporation, the first state-owned company to offer a public equity issue.

Saudi economy records 6.6% growth

By Mark Nicholson, Middle East Correspondent

SAUDI ARABIA'S economy grew by 6.6 per cent last year, Sheikh Mohammed Ali Abul-Khalil, the finance minister, has disclosed to a local newspaper.

Sheikh Mohammed did not specify if the figures, the first official estimates for growth in 1991, represented real or nominal growth, nor did he quote a figure for gross domestic product. But economists in the kingdom said the minister's

figure is in line with their own estimates of real GDP growth for the year. The estimates for 1991 output show a sharp fall from the economy's 18 per cent real GDP growth in 1990.

However, during 1990 the economy benefited from higher oil prices after Iraq's invasion of Kuwait and from the boost to the private sector from supplying US forces during Desert Shield.

Sheikh Mohammed said in Okaz newspaper that the kingdom's industrial sector had grown by 9.1 per cent in 1991.

against a 8.9 per cent growth the previous year. Much of the growth is attributable to a rise in the kingdom's petrochemicals output.

Saudi Arabia, the world's largest oil exporter, is pumping at least 8.45m barrels of crude a day. The kingdom recently denied reports that it was raising production to 8.8m b/d for November.

More detailed figures on the Saudi economy's 1991 performance are expected later next month in preparation for the kingdom's 1993 budget, expected around New Year.

Mr Henry Azzam, chief economist at National Commercial Bank, Saudi Arabia's biggest, said he expected the government then to announce an expansionary budget and a continued public sector deficit.

The kingdom forecast a \$8bn deficit in its 1992 budget, which economists say is being easily covered by domestic financing.

Mr Azzam said he expects the economy to show real growth of around 6 per cent for 1992 given the relative stability of oil prices.

UN underlines commitment to Cambodian election next year

By Alexander Nicoll, Asia Editor

UNITED NATIONS participation in the Cambodian peace process is expected to be strongly reaffirmed by the Security Council, despite the refusal of the Khmer Rouge to co-operate.

A draft Security Council resolution, due to be passed within a week, underlines the determination of the international community to hold elections in May 1993 whether or not voting is possible in areas held by Khmer Rouge guerrilla forces.

The resolution is likely to be acceptable to all the countries which played a big part in engineering last

year's peace agreement which was intended to end the 13-year civil war.

There are disagreements about the degree of response to failure of the Khmer Rouge, which was a party to the accord, to abide by it. The Khmer Rouge has refused to allow the UN access to the areas it controls, has violated the ceasefire, has fired on UN helicopters and has not disarmed or contained its troops.

The resolution is expected to state that economic penalties would be used against the Khmer Rouge if it attempted to disrupt the elections or registration of voters, but to stop short of mandatory sanctions.

To deter disruption, UNTAC - the UN Transitional Authority in Cam-

bodia - will maintain its military strength at 16,000 troops until the May elections instead of reducing them to about half that number as had been planned.

The troops will put less emphasis on containment of the military forces of Cambodia's factions - which has not been a success for most of them and has been ignored by the Khmer Rouge. Instead, UN troops will be deployed across the country to help ensure undisturbed registration of voters.

UNTAC is an unusually extensive \$1.6bn operation designed under last year's peace agreement to steer Cambodia from its civil war to the establishment of a

freely elected government.

It plans to keep voter registration lists open until around the end of January, giving time for UNTAC to mount a campaign to educate voters about the elections.

A Security Council decision to reinforce UNTAC's mandate reflects a belief that Khmer Rouge forces are not strong - estimates vary from 5,000 troops to a maximum of 30,000 - and that elections can be held without serious disruption.

Khmer Rouge violations of the ceasefire have sometimes been exaggerated by the Phnom Penh government, western officials say.

It is estimated that areas not held by the Khmer Rouge represent about

85 per cent of Cambodia's territory and around 90 per cent of the population. The officials say this would be sufficient for a new Cambodian government to win international recognition.

Officials who believe there has been progress in Cambodia point to the repatriation of 175,000 Cambodians from Thai border camps. They say most have chosen to return to their villages and that none has been killed despite the danger from landmines. The target is to re-settle the remaining 100,000 or so before the elections.

Mandatory sanctions are unlikely to be agreed because of the misgivings of some governments, including

Thailand and France, about the value and effectiveness of sanctions against the Khmer Rouge.

Mr Boutros Boutros Ghali, UN secretary-general, has recommended to the Security Council tighter immigration controls on Cambodia's eastern border with Vietnam and customs checks on the exportation of lumber and gems on the Thai border.

In a report, he dismissed Khmer Rouge claims that Vietnamese troops had infiltrated Cambodia, saying there was no evidence of any formed units of foreign forces with the possible exception of those zones controlled by the Khmer Rouge, to which UNTAC had no access.

Syria delays troop pull-out

Syrian troops will not leave Beirut until the country has completed all political reforms foreseen in the 1989 Taif peace accord, Syria's vice president responsible for policy in Lebanon said yesterday, Lara Marlowe wrote from Beirut.

Mr Abdel-Halim Khaddam's remarks, broadcast on Radio Monte Carlo, confound hopes that Syrian troops would redeploy to east Lebanon before the year end.

Mr Khaddam said Lebanon had failed to abolish its sectarian system of government - in which political positions are allotted according to religious affiliation - which in his view was the most important Taif reform.

China pushes market reforms

China is pushing through a package of reforms for its state-owned commercial companies which will allow them to introduce shareholding, determine their own marketing strategies and deal in foreign trade, Reuters reports from Beijing.

He Jihai, vice minister of commerce, told the official China Daily the reform measures would boost the state commercial sector, which has lagged far behind private entrepreneurs in exploiting China's emerging consumer market.

Under the reforms, state companies will be allowed to determine their own product mix, introduce shareholding systems to bring in new capital and lease subsidiary operations to other companies.

Yeltsin seeks to restore faith of S Korean investors

John Burton on why Russia is anxious to revive economic co-operation while Seoul-based companies remain cautious

MR BORIS YELTSIN, the Russian president, is hoping to revive South Korean investment confidence in his country during his visit to Seoul, which begins today.

In spite of Russia's potential as a source of both raw materials and high-technology, most Korean companies are cautious about its prospects.

Total Korean investment in the CIS, mostly in Russia, has amounted to \$27m since 1989, when the two countries established trade offices. This is only about a tenth of the investment Korean companies have made during the same period in China, another recently opened market for Korea.

Moreover, Korean investment in the CIS has declined from its peak in 1990, when it reached \$18.4m. This included \$16m invested by Hyundai in a timber and furniture joint venture in the Russian Far East, the single largest Korean investment to date.

Investment dropped to \$2.9m in 1991. Although it has risen to \$7.3m during the first 10 months of 1992, only \$306,000 has been committed since June. Korean companies have been deterred by growing political turmoil and foreign exchange problems.

Hyundai, Korea's largest conglomerate, complains that new export taxes and foreign exchange controls are threatening the future of its timber

project, in the port of Svetlaya. Moreover, investment confidence was weakened after Russia was unable to meet interest payments on a \$1.5bn loan and trade credit package granted in 1990, when the two countries established diplomatic ties. The debt problem forced Korea to withhold a second promised loan tranche of \$1.5bn.

An apparent solution was reached last week when Russia agreed to pay the overdue interest in cash and kind. Resumption of Korean credits will enable Russia to buy more Korean goods and increase bilateral trade, which amounted to \$1.2bn in 1991 with Korea enjoying a slight trade surplus of \$48m.

Some of the credits have

been used to purchase Korean production facilities and components. But the granting of further loans has become a political issue in this year's presidential election. "The government is rushing to promote economic co-operation with Russia, which is unprepared to utilise Korean economic aid," Mr Kim Dae-jung, the presidential candidate of the main

opposition Democratic Party, said yesterday.

Nonetheless, Korean investment in Russia should grow next year. Daewoo is planning to invest \$20m in a bus assembly plant in Khabarovsk and \$10m in a St Petersburg consumer electronics factory.

Kohap, a textile group, is developing plans with local Russian officials to establish

an industrial complex for Korean companies in the port of Makhodba.


Mr Yeltsin's visit will include the formal signing of a contract for a feasibility study of a proposed \$20m project to develop natural gas reserves in the Russian republic of Yakut-Sakha. The study, which will involve a consortium of Korean companies, including state-owned Korea Petroleum Development, Daewoo, Yukong Oil, Samsung and Lucky-Goldstar.

Of more immediate impact will be Korean assistance in converting Russian military factories to civilian use in return for technology transfers, in such areas as aerospace, machinery, electronics and telecommunications.

Both Daewoo and Samsung have already imported Russian aerospace technology. Daewoo Heavy Industries is building, from designs provided by Kamov Helicopter Scientific & Technology, pilotless helicopters that will spray agricultural pesticides.

Russia also hopes to sell military equipment to South Korea with this week's signing of a military co-operation treaty. However, Seoul is expected to purchase only a limited quantity of weapons to increase understanding of the Soviet-made arms that North Korea is using.

Double taxation and customs clearance agreements will also be concluded during Mr Yeltsin's visit.



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NEWS: THE AMERICAS

Wanted: party mechanic to lead Republicans

By George Graham in Lake Geneva, Wisconsin

ONE of the first tasks facing the Republican party after its defeat in the presidential election this month is the choice of a new party chairman.

Candidates flocked to Wisconsin this week to impress the Republican governors who will have an influential voice in the selection.

Some irritated the current party chairman, Mr Rich Bond, by starting to campaign for the post before the election. Practice has it that a new party

chairman is appointed after a presidential campaign, either by the president himself, or if he is defeated, by the party.

Senator Robert Dole, the minority leader in the Senate, and many Republican governors believe they are their party's best spokesmen for the four years ahead; they want a mechanic to head the party organisation - and preferably one who will not be working on the side for one of the party's presidential hopefuls.

"What we ought to be working on is the next election and not someone's campaign in

1996, so I want someone who is willing to do that and doesn't want to profit from the job," said Senator Dole.

Governor Kirk Fordice of Mississippi added: "I think we need somebody who is not influenced by the Washington syndrome, who is literally from outside the Beltway. We don't need somebody who is going to use this job to further his career in the lobbying business."

Among those working the hallways at the governors' meeting was Mr Charles Black, who helped lead President

Bush's campaign. This may not help him, however, and to many leaders he is too much of a Washington lobbyist.

Former Governor Pierre Du Pont of Delaware wants to turn the party organisation from a campaign apparatus into a policy workshop, but he may be too much of an ideologue.

More of a mechanic is Mr Spencer Abraham, who is credited with building a strong grassroots party organisation in Michigan and who now runs the Republican congressional campaign committee. He is not necessarily helped, however,

by Vice-President Dan Quayle's campaign on his behalf. Similarly, Ms Lynn Martin, the labour secretary, may not be helped by Mr Bond's backing.

Mr Haley Barbour, a former Mississippi state party director, argues for a "nuts and bolts" chairman who will direct the party's resources to the state and local level. Like Mr Black, however, he may be tarred with the "lobbyist" brush.

Other candidates have yet to emerge. "Just hold off for a while," Senator Dole urged his party colleagues. "We've got plenty of time."



Senator Robert Dole: says there is no hurry to choose the right person as chairman of the Republican party, described as a 'big tent' capable of enfolded a variety of opinions

Foreign property investors calm over tax fears

By Nancy Dunne in Washington

MOST foreign investors in American property are likely to increase or at least maintain their current investment levels, unless there are unfavourable changes to the US tax code this year, according to the Association of Foreign Investors in US Real Estate.

Mr James Feggetter, executive director of the association, said that foreign investors have been alarmed by "the talk" in the presidential campaign, during which President-elect Bill Clinton said he would raise new revenues by getting foreign businesses to pay "their fair share".

A survey of the association's 90 or so institutional members found one third planning to raise their investment levels if the tax climate remains favourable. About one third plan to retain current investment levels, and the remainder plan to reduce their levels of investment.

The association's members ranked Washington DC as the most likely target of investment. "The perception is that the city is a stable, solid market due to a captive audience of many law firms, lobbyists, government agencies, diplomats and so on with a steady demand for office space, housing and retail stores," Mr Feggetter said.

On the list of cities most likely to draw foreign property investors, Atlanta ranked second, followed by San Francisco and Seattle. New York City was a distant fifth.

Half of those surveyed said the property market in New York had worsened over the past year.

Overall, foreign investors have not much changed their opinions of US property investment in the last year, although 70 per cent said they viewed the outlook for US property investment more negatively than five years ago.

Mr Feggetter said foreign investors were about evenly divided regarding their 1993 investment plans because of the mixed signals about the future of the US economy.

Foreign investors became a significant factor in the US market in the early 1980s. Investment accelerated in the mid-1980s and levelled off by 1989.

According to the US Commerce Department, foreign investment in US real estate now totals about \$35bn. Members of the Association of Foreign Investors in US Real Estate include: Deutsche Bank Capital Corporation, Olympia and York, Banque Indosuez, Mitsubishi Estate, Fuji Bank, Sumitomo Life Realty, the Shell Pension Fund and Phillips Pensions Fund.

Bush's defeat gives governors free rein

MANY of the country's 23 Republican governors gathered this week at a lakeside resort in southern Wisconsin appear in a sense happier since the defeat of their candidate, President George Bush, writes George Graham.

It is as if the party's removal from power has offered them an opportunity to speak up for a message they feel their party has not enunciated well: what the party really stands for.

"We think it's going to be our responsibility as Republican governors to rebuild the party," said Governor Tommy Thompson of Wisconsin, chairman of the Republican Governors' Association. Many Republicans active at the state level fear that their national leaders, during 12 years in the

White House, have strayed from the straight and narrow, lured by entrenched Washington interests or diverted from hands-on government into arid discussions.

But in the states, Republican governors - and, many of them will admit, Democratic governors - have shown discipline in grappling with the revenue shortfalls that beset 35 states last fiscal year. Those such as Governor Thompson, Governor John Engler in Michigan and Governor Carroll Campbell in South Carolina have also shown innovation in reforms of welfare, health and educational systems.

"Now that we do not have either house in Congress nor the executive branch, that's where the action is

going to take place, where the voices are going to be," said Governor Thompson. "Our programmes are going to be tested not at the federal level but at the state level. The only parts of the country where Republicans are setting the agenda are going to be those states where we have Republican governors," said Senator Phil Gramm of Texas.

The most gaping of the post-election wounds is the division over where the party should stand on social issues, especially abortion.

Speaker after speaker in Wisconsin called for a return to the vision of the party as a "big tent", capable of enfolded a variety of opinions.

"The Republican party has been, and has got to get to the position of being,

the big tent. I think we have to have differences of opinion on social questions if we are going to be a majority party," said Governor Thompson, adding that he believes the whole party platform will have to be changed.

"We've got to be the party of the big tent. Everybody says it. I believe it and I hope I've practised it," added Senator Robert Dole, Senate minority leader. The idea that Republicans should concentrate on the economic issues that unite them, rather than on the social issues that divide them, finds wide party support.

However, the Republicans still have a lot of work to do before they have pitched a tent as broad as their governors would like.

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ITALY'S LEADING PRIVATE BANK

\$25bn will end crisis over thrifts

MR ALBERT CASEY, chief executive of the Resolution Trust Corporation, yesterday said he could complete the overhaul of the US savings and loan, or thrifts, industry with just \$25bn in new funding, Reuters reports from Washington.

This is the lowest estimate to date of the funds needed to complete the overhaul, on which the RTC has so far spent \$84bn.

The RTC, set up in 1989, was scheduled to close in 1996, but its activities have recently been slowed by the failure of Congress to provide new funds. It has been without new funds since April 1, after the last Congress failed to vote an additional \$43bn.

Mr Casey said that if he received the new funding quickly he could virtually finish the process of closing down failed institutions and paying off insured depositors by the end of 1993.

He said that by the end of next year there would only be \$15bn-\$20bn left in hard-to-sell assets, which could be managed by existing government agencies. "We could sunset the whole thing three years ahead of schedule," he said.

Mr Casey expects his agency will receive another 50 failed thrifts by the end of next September, the deadline for failed institutions to be handled by the RTC.

Argentina acts to stabilise the peso

By John Barham in Buenos Aires

ARGENTINA plans to take currency convertibility a step further in response to last week's speculation, which drove the peso below parity with the US dollar, by allowing banks and individuals to broaden hard currency holdings.

The central bank president, Mr Roque Fernandez, announced on Monday evening that individuals could open dollar current accounts and banks could meet central bank reserve requirements in pesos or dollars. However, wages and taxes would still be paid in pesos.

The hope is that this will strengthen confidence in the peso and encourage a decline in interest rates - which reached 100 per cent a year, in dollar terms, on the interbank market on Monday. Yesterday, interest rates settled down to 35-40 per cent, while share prices climbed 7 per cent and the peso rose above its maximum official rate of one peso

to the dollar.

The government formally pegged the peso to the dollar in April 1991, when it made the currency fully convertible and required central bank reserves to equal the money supply. However, confidence in the peso is ebbing, as inflation continues rising at about 20 per cent a year, making the currency increasingly overvalued.

Observers say Mr Fernandez's proposal - originally floated last year - is largely psychological. The US dollar is already a de facto parallel currency. One US analyst said: "A lot of inflation comes from expectations that there will eventually be a devaluation. If they were really serious, they would abolish the peso. By keeping it, they are keeping open the option to print money or devalue."

However, bankers commented that other factors such as seasonally tight liquidity, the likelihood that privatisations due for December will be less lucrative than expected, and continuing political risk, will keep interest rates high.

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10/11/92

Police to probe Clark's role in arms case

By John Mason
and Ralph Atkins

A POLICE inquiry was ordered yesterday into evidence given by Mr Alan Clark, the former trade minister, about his role in the Matrix Churchill affair as the prime minister vigorously dismissed charges that he and cabinet colleagues repeatedly misled parliament over arms-related sales to Iraq.

A short statement from the

Crown Prosecution Service said the Metropolitan Police had been asked to carry out inquiries relating to inconsistencies in the evidence given by Mr Clark to Customs investigators and later at the trial of three businessmen accused of breaching arms embargoes on Iraq.

Mr Clark's testimony at the Old Bailey 10 days ago that the government approved the sale of sophisticated machinery which could be used to make weapons, along with evidence contained in 500 pages of government documents released to the court, led to the acquittal of the three former Matrix

Churchill directors.

The collapse of the case against the directors of Iraqi-owned machine-tools manufacturer has raised a storm of controversy and dominated the political agenda forcing ministers, including Mr Major, onto the defensive.

The move against Mr Clark, announced yesterday by the Crown Prosecution Service, follows the passing of papers about Mr Clark's evidence by Customs and Excise to the CPS last week. Mr Clark was yesterday refusing to comment on the CPS's decision to call in the police.

The inconsistencies in his

evidence are between his initial witness statement to Customs investigators before the prosecution was brought and statements he made later from the witness box during the trial. Customs blamed these inconsistencies for its decision to abandon the controversial prosecution.

Customs have refused to release transcripts of Mr Clark's witness statement. The transcripts, however, are understood to repeat Mr Clark's earlier insistence that he did not encourage companies to breach export controls to Iraq.

This stance was apparently

largely contradicted by Mr Clark under cross-examination. During the trial he agreed that he had indicated that companies applying to the Department of Trade and Industry for export licenses could stress the peaceful applications of "dual use" machine tools.

The advice not to mention the potential military use from applications was "our old friend economical...with the actual," Mr Clark told the court, "paraphrasing an expression 'economical with the truth' made famous by Sir Robert Armstrong, former cabinet secretary, during the Spycatcher case in the mid-1980s.

Mr Clark also told the court he found the government guidelines on arms exports "tiresome and intrusive" and that the machine tools involved were of little concern since they were "pedestrian technology."

The decision to call in the police will concentrate attention further on the role played by Mr Clark in the affair rather than those of other ministers. Mr Major has already dismissed himself from Mr Clark. At the despatch box in the Commons last week he said Mr Clark had assured him in 1990 that correct government procedures had not been breached.

Britain in brief



Vauxhall to cut output for first time

Vauxhall, the UK subsidiary of General Motors of the US, is being forced to cut its car output for the first time during the recession in the face of weakening demand from export markets.

It is planning to cut eight shifts at its assembly plant at Luton, Bedfordshire in January with the loss of 2,880 cars. Its plant at Ellesmere Port will not be affected by the cutback. The company said some of its key export markets were reporting declining sales, forcing it to introduce short-time working. Around 4,200 hourly-paid production workers at the Luton plant, which produces the Vauxhall Cavalier-Opel Vectra, will be affected by the short-time working.

Italians win bridge contract

The steelwork contract for the privately financed £300m new toll bridge across the River Severn, between England and Wales, has been awarded to an Italian venture despite complaints it could threaten UK jobs. John Laing of the UK and GTM Entrepote of France said that they intended to award the £7m contract to Construzione Cimolai Aramondo of Pordenone in northern Italy. The British Constructional Steelwork Association asked Mr Michael Heseltine, President of the Board of Trade, to intervene after it emerged Cimolai had submitted the lowest bid for the contract.

Truck sales rise by 5.3%

Sales of new commercial vehicles rose by 5.3 per cent in October to 15,465 confirming earlier signs in the summer of the beginning of a slow recovery in one of the sectors hit hardest by recession.

Sales have risen year-on-year in three of the last five months according to figures from the Society of Motor Manufacturers and Traders.

Campaign fails to get through

Opportunity 2,000, the business-led campaign to improve the position of women at work, has gained the backing of chief executives but is often failing to get through to lower levels of the workforce, according to new research.

The initiative, launched a year ago by Mr John Major, the prime minister, covers nearly a quarter of the UK workforce and involves 141 companies, most of them household names. The research found nearly 80 per cent of chief executives of participating companies had taken an active role in sponsoring the initiative but line managers were often ill-informed, and fewer than half had specific targets for their sections of the business.

Revamp for 'Yellow Book'

The City's "Yellow Book" - virtually a bible for corporate financiers - is being revamped to make it easier for users. The Stock Exchange published a draft of a new rule book, to general approval from corporate financiers. The exchange spells out its intention to publish what it considers breaches of the rules, and to ensure company directors personally where they are at fault.

Businesses urge prompt reductions

By Andrew Baxter
and Andrew Taylor

SMALL businesses gave widespread support yesterday to chancellor Norman Lamont's call to banks to pass on recent interest rate reductions fully and promptly to help them survive the recession.

While businesses were almost unanimous that small companies were having to wait too long for rate cuts, the chancellor's plea has also revived wider concerns about the banks' attitude to them.

For some businesses, it is inevitable that the banks will try to delay the good news for small companies. Their bigger clients have more bargaining power, and can shop around for loans in the Euromarkets or overseas.

For others, what one London-based company described as the banks' "unsupportive attitude to anything involving risk" is far more dangerous than a few weeks delay on reducing interest rates.

Not everyone agrees that the banks are playing unfairly. The Forum for Private Business, which represents more than 20,000 companies, says accusations that banks have failed to pass on interest rate cuts are false and distract attention from the real issue of improving bank services generally to small companies.

Mr Stan Mendham, the forum's founder said: "To cry wolf over allegations which we know cannot be substantiated would degrade our future task of ensuring that the banks play their role in ensuring a small business-led recovery."

The Confederation of British Industry said: "It is still unclear the extent to which banks have or have not passed on the benefits of lower interest rates."

"What is clear is that there is great dissatisfaction at the way in which banks levy their charges. It is not always apparent how banks arrive at the additional charges over base rates they make."

Borrowing costs lower in UK than rest of EC

BORROWING rates in other EC states are considerably higher than in the UK. France has among the highest real rates in Europe, with annual inflation at 2.4 per cent, as against a commercial bank base rate of 9.55 per cent. This compares to British real base rates of 3.2 per cent with underlying inflation at 3.8 per cent and actual base rates at 7 per cent.

The overdraft rate in France is on average 17 per cent, according to the Association Française des Banques (AFB), rising to 20 per cent for personal unsecured loans of less than FF10,000. Business customers pay between 16 per cent for loans of less than two years, falling to 13.5 per cent for loans to be repaid over a longer period, says the AFB.

The rate for long term government bonds - for redemption in 10 years - is 8.6 per cent. The Bank of France's intervention rate, at which it does most of its lending to commercial banks, is 9.1 per cent. Commercial banks able to borrow at that rate should therefore make an operating margin of 0.9 per cent, on business loans of less than two years, before costs.

In Germany, where inflation is 3.7 per cent, the rate charged on overdrafts is about 14-15 per cent. For larger, secured loans, the rate is in between 14 per cent and 17 per cent.

Interest rates to business borrowers are set according to the individual circumstances since there is no comparable base rate in Germany as such. But very large companies could expect to borrow money at around 12 per cent.

The Bundesbank's benchmark rates are the internationally sensitive Lombard rate - which stands at 9.5 per cent - and the discount rate at 8.25 per cent. Short-term money market rates were 8.75 per cent yesterday.

FT writers find considerably higher interest rates in other member states

In Italy, rates vary between banks. The Bank of Italy has made two cuts in the discount rate since the currency market's turbulence and now stands at 13 per cent.

The commercial banks, under strong pressure from industry and the Bank of Italy, have recently reduced their prime rate to a band of between 15.5 per cent and 14.5 per cent for leading customers. The top rate, charged to ordinary customers, oscillates between 22.25 per cent to 21.25 per cent. Unsecured loans with be extended at the top rate. Overdraft rates are around 24 per cent, with business loans at about 17.5 per cent.

Bank margins are exceptionally high - up to 9 percentage points between the rate at which money is taken on deposit and lent and an average of 6 percentage points. This is because the banks are seeking to offset losses on the large portfolios of treasury bills whose value has declined as a result of the recent lira crisis.

Spain's base rate is currently 10 per cent while year-on-year inflation is running at 8.2 per cent. Overdraft rates are between 25 per cent and 30 per cent.

The 10-year bond (benchmark) rate is currently 12.42 per cent. Rates to business vary enormously depending on a customer's circumstances. Generally, business borrowers' rates start from the Madrid interbank rate, currently at 13.6 per cent, plus anything between zero and 30 per cent.

Money dealers change views on direction of UK base rates

By James Biltz

IN RECENT days, dealers in the sterling money market have started to change their views on the direction UK base rates are taking. Their decisions have significant implications for banks' balance sheets.

When the Bank of England signalled base rate cuts on September 22 and October 16, the market's expected more monetary easing before the end of the year. The rates for lending money in 1 month and 3 months time therefore fell below the prevailing level of base rates, sometimes by a full percentage point.

Since Friday's cut, however, money market rates have changed direction. The offered rates for 1-month and 3-month money rose yesterday to around 7 1/2 per cent, above the base rate of 7 per cent. And dealers think Friday's rate cut may be the last for 1992.

The clearing banks were adamant yesterday that the higher cost of borrowing money in the

wholesale market had no impact on lending rates to private customers and businesses.

The head of asset management at one big clearing bank said his bank's retail balance sheets were self-contained, and the higher cost of borrowing sterling could be met through wholesale market operations.

"We have gone out of our way to increase our retail deposit base and reduce our reliance on money market funds."

But recent movements in wholesale market rates may affect bank balance sheets in other ways. The fall in money market rates reduces returns banks get from holding current account deposits. Many are non-interest bearing for the customer, and banks earn money by re-depositing cash in the wholesale market. But clearing bank officials said any potential losses will have been offset by fixed interest portfolios or the purchase of gilts.

Although the market still assumes base rates will be cut

to around 6 per cent, cash rates beyond that are pricing in a sharp rise in interest rates.

The rate for 1 year money was 6.75 per cent yesterday, but 5-year rates were 7.64 per cent, while 10-year rates were 8.57 per cent.

The rising yield curve may affect the rates at which banks offer fixed rate mortgages, which have been among the most popular products sold by the UK clearers this year.

Recent volatility in the overnight rate of wholesale lending has concerned the clearing banks because it has encouraged a phenomenon called "round tripping" among UK corporates.

The overnight rate of lending has been as high as 100 per cent in the last month because of shortages of liquidity in the wholesale market. These shortages have partly been triggered by a belief that rates are trending downwards, making dealers unwilling to borrow cash from the Bank of England at prevailing prices.

THE CHALLENGE OF THE NEW SOUTH AFRICA

Business is playing a role in trying to restore stability

Warren Clewlow, chairman of Barlow Rand talks to John Spira, Finance Editor of Johannesburg's Sunday Star.



Warren Clewlow

Spira: How do you see South Africa evolving over the next year or so - politically and economically?

Clewlow: In spite of our present difficulties, I'm cautiously optimistic. South Africa has enormous potential. It has an abundance of natural resources, a relatively sophisticated infrastructure, and great beauty. More importantly, it is a country whose people possess proven skills and talent and who, time and again, have displayed remarkable resilience in adversity. These characteristics make the country an attractive proposition for investment, trade and tourism; and now that we have embarked on the path of democratisation our prospects for solid economic growth are, in principle, promising once the world economy turns up and the drought is broken. What is clouding the outlook, however, is politics.

No-one believed that South Africa's transition to a just and democratic socio-political order would be easy or painless, but the hiatus that has developed in the negotiating process is cause for considerable concern. It's clear that until we have a political settlement and a new constitution acceptable to the majority, the level of confrontation is likely to remain high, to the detriment of the economy. Particularly worrying is the senseless and spiralling violence, which is inhibiting investment and sapping confidence.

I find in my travels great sympathy for and understanding of our difficult situation, but equally I find growing impatience at the lack of progress, particularly the intractability and obduracy being displayed by leadership across the political spectrum. This is the key to unlocking our future and until all the players begin to work together in a spirit of collaboration and sensible compromise prospects for renewed economic growth of the kind we and our neighbours in Southern Africa need will remain constrained.

Businessmen realise how precariously we are placed and this is why increasing numbers of them, frustrated at the delay and obfuscation, are taking initiatives and playing an active role in trying to restore stability. It is this kind of participation and commitment that inspires optimism for the long term. Business's role, in fact, is pivotal: in recent times there have been many instances where it has been businessmen who have facilitated and provided the resources to help in addressing problems not directly related to their main function. However, they, and companies like Barlow Rand, are looking beyond the vital part that we will be expected to play in generating the level of wealth that will be necessary to address the inadequacies of the past.

The long term success of the country is going to depend, in the end, on the extent to which South Africans, and here I mean all South Africans, are prepared to put aside their former ideologies and alliances and work for a better future. South Africans need each other: their interests are inextricably interwoven and the divisions that characterise our present political, social and economic landscape are a poor foundation for that future.

It is the human factor that will make the difference and it is heartening to see the extent to which the stresses of the transition are moulding new leaders who are becoming much more pragmatic about the future. Economic decline can only fuel the factions - growth must be a priority for all of us and I am sure that, despite the setbacks, we can achieve it.

Spira: In the past 18 months Barlow Rand's profile has changed somewhat, particularly in the mineral resources sector. Why, and is the process complete?

Clewlow: It's all a question of focus, and timing. We

are continually reviewing our operations to make sure that we are invested in the right areas. In mining, which is essentially a cyclical commodity business, we 18 months ago relinquished control of our platinum interests to implants but kept a sizeable stake as an investment. The why's and wherefores of that strategic decision are well documented and it was a first step leading to the eventual restructuring of Rand Mines.

Before this finally came about, however, we disposed of Middelburg Steel & Alloys (MS&A). As a wholly-owned subsidiary, MS&A was having an enormous influence on our earnings pattern. Profits fluctuated widely from year to year and our initial strategy was to float off 50 per cent or more of MS&A's shares. That move was pre-empted when a consortium of companies in the Anglo-Gencor stakes came up with the Columbus Stainless Steel project and made us an offer which finally totalled R1.2 billion for Middelburg Steel & Alloys and Rand Mines' chrome mining interests.

That, effectively, was the second step but

coincidentally with it we were also in the process of disposing of Rand Mines' non-core assets in vanadium pentoxide and forestry leaving the group, essentially, in coal, gold and property. These interests have now been split up into separate, self-sufficient and operationally autonomous business units each of which is financially independent. The main benefit of this development is that cross-subsidisation is eliminated and dividends flowing to the centre from, say, coal will not in future be diverted into other investments.

In the industrial sector we have refocused our electronics and engineering business away from its heavy dependence on defence. We have divested from some of our carpet manufacturing interests and, in food, we have floated off part of our holdings in C.C. South Africa and Langenhoven. Another move which I believe will have great benefit is the acquisition through UK-based J. Bibby & Sons of the Caterpillar dealerships in Spain and Portugal. We have been Caterpillar dealers in South Africa since 1927 and it is a business we understand very well. We had been looking to make a sizeable investment in continental Europe for some time when this opportunity came along and while it might take a little while to shake down it will generate positive cash flow almost immediately.

These are some of the moves we have made lately; and together with a sustained capital expenditure programme of some significance reaching back to the mid-80s, it emphasises my earlier point about looking forward to the future. Regrettably we have had to cut back in the number of people employed in the group, but this is more due to the state of the economy than it is the process of weeding our assets to achieve optimal productivity and positioning ourselves for the upturn when it comes.

Spira: Following the scrapping of sanctions, many

South African countries have been establishing closer links with countries elsewhere on the African continent. What is Barlow Rand's strategy in this regard?

Clewlow: We recognised long ago that a key to our future

success lay beyond our borders. We had built up strong market shares in many of the sectors in which we operate domestically and it was clear that growth would have to come from external sources. With this in mind we consciously set about gearing up our exporting activity and sales in that sector now constitute some 10 per cent of turnover.

Sub-Equatorial Africa being our hinterland is, of

course, of considerable importance and we have a long-standing tradition of operating and trading within it. We are linked by a relatively efficient rail, road and air

transportation system and this, together with our expertise, technical know-how, our knowledge of trading in Southern Africa, and the fact that we can now operate openly, gives us a strong incentive to expand our activities further northwards. We have already done so, our latest venture being to open an office in Kenya.

We know that we have a contribution to make in Africa

and our strategy is to build up strong partnerships in the different countries and thereby add to their development. It won't be easy, as we discovered in Zaire, but we shall persevere because we believe we can succeed.

Spira: Do you see a time when foreign companies make substantial investment in South Africa? Would that present a threat to your group?

Clewlow: What South Africa needs is a climate which encourages investment whether it be of domestic or foreign origin. I'd like to hope that there will be significant investment from overseas because it will be a vote of confidence in South Africa and, inter alia, will stimulate economic growth, job creation and higher revenue to fund social expenditure. In the ideal, of course, because Barlow Rand is strongly entrenched in this country, and has a proven track record, we believe that the group can be a vehicle for channelling that investment through strategic alliances in either manufacturing or distribution, or both.

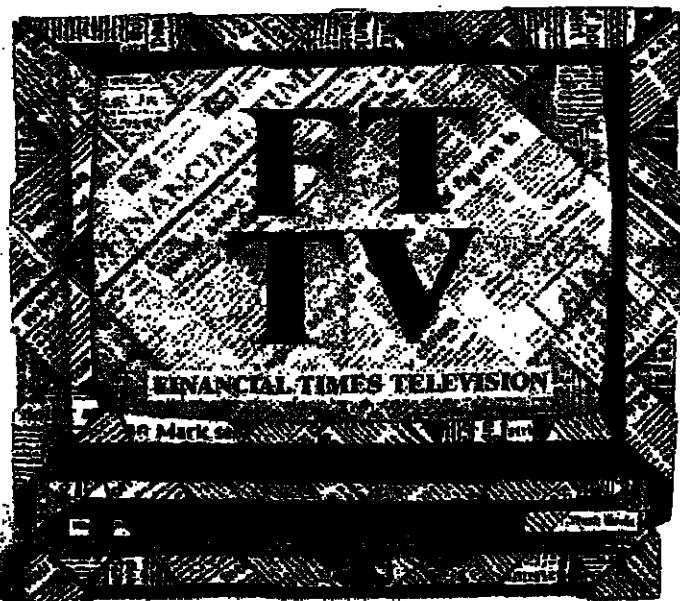
We are very much aware that the business environment of the future in South Africa will be somewhat different to the past and I hope that Barlow Rand has prepared itself for the change. In the past, with constraints on the movement of capital in and out of the country, we developed something of a "business hothouse" with most of the development being carried out by local investors or, at best, overseas loans.

There is enormous opportunity in Southern Africa and there is no way in which we could, or would want to, go it alone. The benefits that foreign investment brings extend far beyond simply the money spent. Such investments would bring challenges and opportunities to groups like ours. Competition in some of our existing markets might well have a negative impact in the short term, but we believe that our businesses are extremely sound and will survive and prosper in those circumstances. On balance, however, the spin-off benefits of a growing and developing South Africa for the Barlow Rand group are very great because many of our companies are strong in markets that will respond quickly to investment.

Overall, South Africa is not only suffering the pains of moving away from its political past and embracing democracy, it is also experiencing the difficulties of re-entering the world economy, and at a time when that economy is not in great shape and there is plenty of competition for the investment funds you referred to earlier.

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NEWS: UK

BaE challenged over Saudi defence order

By Daniel Green

THE ROLE of British Aerospace (BAe) as the lead contractor in the £200m Al-Yamamah arms contract with Saudi Arabia came under fire yesterday from the company's own sub-contractors.

Mr Peter Usher, chairman of Vospers Thornycroft, the ship-builder, said he wanted to bypass BAe and deal directly with Saudi Arabia over the construction of three mine hunting ships.

"We would like to see a naval Al-Yamamah. We think they could go ahead with just the ships part of the deal," he said.

Westland, the helicopter supplier, said it, too, "could not rule out change" in the structure of the contractors in the deal, although the possibility "had not been discussed overtly with BAe".

The row comes when BAe's position as one of the world's biggest defence contractors is under pressure. With UK defence spending falling as a result of the recession, Saudi Arabia is the company's biggest export market.

BAe responded that sub-contractors would have to lobby

Babcock Thorn, the consortium behind Rosyth dockyard, has called for a single management team to control the Scottish site and the rival naval yard at Devonport, south-west England. Citing a study by consultants on the yards, Babcock said Rosyth should handle submarine work

for a change in the terms of the contract through the UK government. Al-Yamamah is a contract between the UK and Saudi governments.

The cracks in the alliance of contractors have arisen partly because Saudi Arabia has not yet decided when to go ahead with the second phase of the deal. The Saudi government

last month said it was still committed to the deal but gave no new clues on timing.

In the second phase, BAe would probably supply 48 additional Tornado bombers, 60 Hawk aircraft, 88 helicopters and three mine hunting ships.

Westland could be subcontracted to supply the helicopters and Vospers the ships.

Mr Usher said Vospers already had "instructions to proceed" from Saudi Arabia for the three mine hunters. "This

while Devonport maintains surface warships. Mr Malcolm Rifkind, defence secretary, is expected to announce next month his decision on which yard will refit Trident submarines. If Rosyth loses the Trident contract to Devonport it is likely to close with the loss of 4,000 jobs.

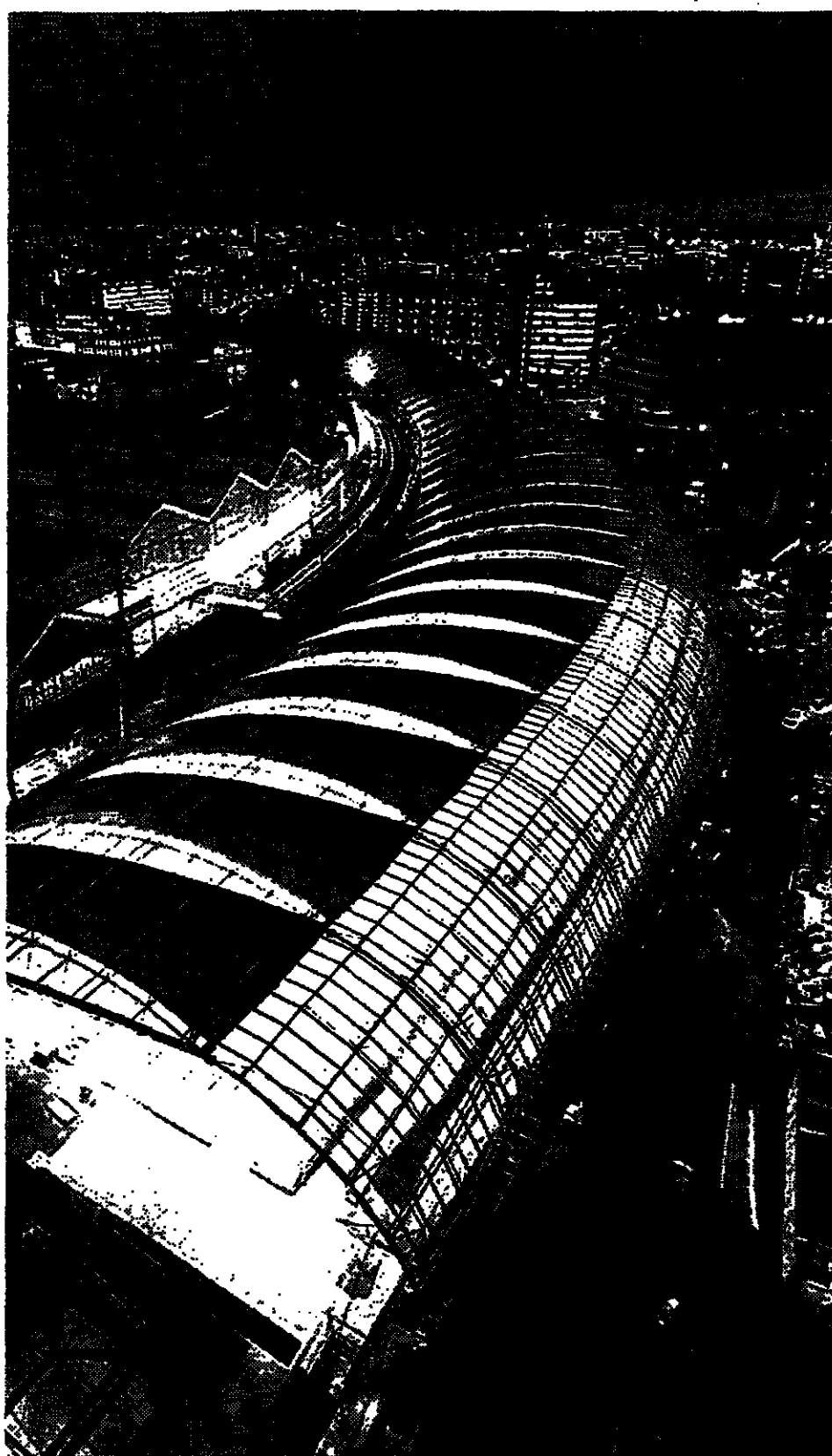
is very close to saying they are ordering. It opens the way for the order." Vospers has already supplied three mine hunters to Saudi Arabia as part of the first phase of Al-Yamamah.

But this was only enough to patrol one of the country's two coastlines, said Mr Usher.

The delay in the Saudi order, and in another from the MoD, for minehunters has left Vospers without any work for its reinforced plastic facilities.

It has had to shed 200 jobs, of which 50 were lost this month, as a consequence. It employs about 1,900 people.

Each ship is understood to cost more than £30m. Vospers is also trying to win an Australian minehunter order and said the recent devaluation of the pound has helped its position versus mainly French and German competitors.



Light at the end of the tunnel: the international rail terminal at Waterloo station was illuminated last night as contractors worked to complete the £130m project, due to open in May 1993. It will be the starting point for Channel tunnel services before a new link is built to King's Cross station

Rail union votes for Tube strike

By Catherine Milton and Richard Tomkins

LONDON commuters could face chaos on the capital's Tube network after members of the RMT rail union yesterday voted 3-1 to take indefinite strike action from Monday night.

The vote, by 55 per cent of the union's 11,000 members on London Underground, is a protest at the most radical plan to shake up pay and conditions on London Underground in 40 years.

London Underground, however, has made it clear it is not prepared to yield on the reforms and claims to have the full support of Mr John MacGregor, transport secretary, for a showdown with the unions.

It also says it has enough staff willing to work to run a strike-breaking service. Some passengers will be able to travel free as there are unlikely to be enough staff to check tickets.

Earlier this week Mr Ian Arthurson, London Underground's director of passenger services, wrote to the leaders of all three rail unions and their members warning that strikers would risk dismissal by their action.

Mr Jimmy Knapp, RMT general secretary, said: "The only way to deal with bullies is to stand up to them and that is

what RMT members will do." Some union officials privately admit that their members may be intimidated by such tactics and seem less confident of victory than in 1989, when the Underground suffered 17 one-day strikes.

Other union officials say they hope to be able to follow the coal unions in winning public support for a strike against redundancies. The union says the plan will cut 5,000 of the 21,000 Tube jobs and reduce pay for 30 per cent of staff, although earnings will be protected for three years.

The RMT vote follows decisions by the TSSA white-collar rail union and the Aslef train drivers' union to ballot their roughly 3,000 members on strike action and action short of strikes. The unions say TSSA and Aslef members have overwhelmingly rejected London Underground's plan in internal consultations.

London Underground said it was "disappointed" by the RMT result but said only 40 per cent of union members supported the vote. The company said: "On past performance that means that would have difficulty sustaining a strike. We believe the majority of staff see the benefits that are on offer to them. We would be very surprised if there were to throw these benefits over board in a futile strike."

Trade figures face delay

By Andrew Jack

PUBLICATION OF official statistics on trade between companies in EC member states will be substantially delayed as a result of the introduction of single European market from next January.

Intra-EC trade figures - an essential component of the UK balance of payments statistics - will be unavailable at least until next June while British businesses adjust to a new system of statistical collection called Intrastat.

Even if the new system is successfully implemented by the end of next year, monthly EC trade statistics will continue to be produced at best

two weeks later than at present, according to senior Customs officials.

Intrastat is being created to provide the trade statistics previously compiled from documents handed by exporters and importers to customs officials at national borders.

From the beginning of next year, these border controls will be abolished and the government will need a new way to collect information.

Companies with imports or exports to EC countries of more than £135,000 a year will complete monthly Intrastat returns, which are far more concise than current border documents. That will cover about 30,000 companies.

MoD seeks cost savings

By Daniel Green

THE MINISTRY of Defence is planning to save between £200m and £300m over the next four years by placing contracts in the private sector.

Mr Jonathan Aitken, the defence procurement minister, said yesterday the intended savings would come from improved efficiency as the companies bid for work now conducted in-house by the MoD. Without the contracting out, the MoD would have spent £1.2bn on these areas, which include vehicle maintenance and accounting.

The scheme is about 10 times the size of previous plans to put out contracts to the private sector, a process called "market testing" by the government. The bidding process has

already started for the overhaul of armoured vehicles, work is carried out by 600 civil servants in Base Workshop at Bovington, south west England.

Other areas earmarked for market testing include payroll, helicopter maintenance, computer and workshop management and ship repairs.

"If it goes well, there are good prospects in the medium and long term for more contracting out," said Mr Aitken, who presented the scheme to more than 600 industry and union executives in Birmingham. Mr Aitken said the private sector personnel who won contracts were likely to be at managers rather than workers.

He said foreign companies might be excluded by UK and European Community rules on

defence related contracts.

Companies that might benefit from contracting out include BA Group and Hunting, which run airfields for the RAF, Vickers and GKN which made many of the armoured vehicles used by the army and British Aerospace, a contractor of a range of services to the Saudi Arabian Airforce.

The MoD's previous efforts at market testing were severely criticised in July by the National Audit Office, the government's spending watchdog.

It said, among other things, that the MoD failed to hit targets for the amount of work contracted out and failed to keep adequate records of the savings made.

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IT'S EASIER
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ABOUT WHAT

Diane Summers assesses what Opportunity 2000's first year has achieved

Great expectations

How campaign companies are changing policies to suit women workers

Work arrangements	Available now to all staff (%)	Available to some staff (%)	Training & education	Available now to all staff (%)	Available to some staff (%)	Help with family care	Available now to all staff (%)	Available to some staff (%)
Flexible hours	36	56	Training for non-traditional work	14	31	Work-place nursery	6	29
Consider requests to increase flexibility	55	28	Mentoring	14	57	Places at community nursery	6	22
Part-time work	40	53	Women only training	16	39	Childcare vouchers/allowances	4	8
School-term contracts	18	41	Dealing with sexual harassment	12	28	After school care	2	14
Homeworking	22	51	Leave			Encouragement to return to work		
Job sharing	31	41	Maternity arrangements beyond statutory minimum	62	20	In-touch schemes while on career break	47	22
Pay and conditions			Paternity leave	53	20	Training while on career break	31	22
Common terms and conditions for all staff	78	2	Parental leave	39	8	Re-entry training programmes	20	14
Checks on equal pay for work of equal value	47	8	Career breaks	46	26	Continuation of benefits during career break	16	12
Flexible pensions	47	14	Leave for care of elderly/disabled	45	14	Financial incentives to return to work	7	19

Cynicism about Opportunity 2000, the business-led initiative launched a year ago to improve the position of women at work in the UK, is bound to be widespread among the quarter of the workforce now covered by the campaign.

The hype surrounding the launch, fronted by John Major, the prime minister, inevitably raised expectations which will have been particularly hard to meet during the past year of recession.

Short of sacking men wholesale and giving their jobs to women, sluggish staff turnover rates will have made impossible any real attack on imbalances between men and women in, for example, management grades. Even in the best of times, policies need time to work through - which is why those companies brave enough to have announced numerical targets for the appointment and promotion of women are generally setting their sights at least five years ahead.

However, research published yesterday to coincide with the first anniversary of the programme also suggests that Opportunity 2000 should not be dismissed as a publicity stunt which is having no practical effect on the day-to-day lives of women at work.

A team drawn from Business in the Community, the business-led umbrella organisation responsible for Opportunity 2000, and Ashridge management college, conducted interviews during the summer with chief executives, board members and line managers from the original 60 or so companies which joined the campaign. The researchers also collected data on the practical steps now being taken by many companies to improve their attractiveness as employers of women. These include new policies and practices on:

● Recruitment. For example, Kingfisher now instructs recruitment

consultants to include female candidates on shortlists wherever possible. The Co-operative Bank has trained managers in "competency-based" recruitment interviewing, designed to eliminate bias against female candidates.

● Assessment and appraisal. It has often been claimed that traditional appraisal systems may discriminate against women. Legal & General has tried to be more systematic and is developing "gender-neutral" techniques. Coopers & Lybrand Deloitte's appraisals cover regular core skills but also include sensitivity to the needs of clients and the ability to build relationships.

● Working arrangements. Almost all participating organisations offer flexible working arrangements to at least some staff. These include job sharing, working from home, part-time working and temporary contracts. The Bank of England is conducting an audit of all jobs to identify where flexibility is possible.

● Pay and conditions. Part-time workers, overwhelmingly female, have historically found themselves in receipt of less than pro rata pay and subject to conditions inferior to those of their full-time colleagues. More than three-quarters of Opportunity 2000 employers now provide common terms and conditions for

all their staff; many have also taken steps to review their pay and check that equal reward is offered for work of equal value. Some flexibility in pensions is also available in nearly half of the companies.

● Family care. Most organisations are offering maternity arrangements well beyond the statutory minimum for all staff and half have career-break schemes for childcare. "Keep in touch" schemes and re-entry programmes are increasingly on offer for women taking and returning from maternity leave; some companies are offering financial incentives to women to return after having children, or are undertaking

to continue paying benefits during the period of leave.

● Help with childcare. Workplace nurseries, vouchers and holiday play schemes are now run by a number of participating companies, including Glaxo, W.H. Smith, Allied Dunbar and Boots the Chemist.

● Education and training. It is often claimed that women restrict their own promotion prospects by choosing to enter the "wrong" disciplines - for example, pursuing careers in support functions like personnel, rather than "core" activities, such as manufacturing. Some companies are now attempting to overcome these barriers. Lucas

Industries, for example, is launching a new programme called "engineering for non-engineers", which, it is planned, will help those in non-functional areas to cross the divide. Single-sex training has been found to be particularly effective in building confidence and enabling women to develop their own style. Over the past year IBM has doubled the number of women it has put through training courses.

Commitment to Opportunity 2000 among chief executives and board members has clearly driven many of these practical improvements. However, there are worrying signs that messages have often failed to filter down the line: following the first year's review, strengthening communications and increasing line-manager involvement have been identified as the areas most in need of attention.

Line managers interviewed were often not well enough informed about Opportunity 2000 to make a contribution. Less than half had specific targets for their departments and some appeared to be unaware that their organisations' declared equality goals had direct implications for them.

A recent survey by the Institute of Management appeared to show that women themselves felt the continued existence of the "old boys' network" was a far greater obstacle to their advancement at work than, for example, a lack of childcare or insufficient opportunities for flexible working.

If prejudice is to be eliminated at all levels of an organisation, and cynicism about Opportunity 2000 is to be swept away, line managers will need to have been drawn more closely into the initiative by the next annual review.

"Opportunity 2000, review of the first year. From Opportunity 2000 campaign office, Business in the Community, 5 Cleveland Place, London SW1Y 6JJ. £12.50

Bridging the huge east-west divide

Managers in the formerly communist countries of eastern Europe accuse westerners imported to teach them how to be capitalists of being aggressive and insensitive to local culture.

This emerges from a study of 300 local and western managers working in Hungary, Poland and Czechoslovakia, published today by G&K/Neumann, the executive search company.

The study concludes that while the joint ventures have created opportunities for western and eastern managers to work together, "culture gaps" between executives are delaying the transfer of expertise. While local managers have a theoretical grasp of, for example, pricing policy, practical implementation is slow and shot with temporary setbacks.

The two groups blame each other for the stumbling progress. Local managers want greater freedom to operate the new market mechanisms. Westerners say their eastern colleagues are averse to risk, responsibility and decision-making.

Local managers admire the professionalism, qualifications and confidence of their western colleagues. One said: "My western colleagues do not know the meaning of the word impossible."

However, in Hungary, almost 50 per cent objected to western managers and in Czechoslovakia and Poland, about 75 per cent said westerners were at best "accepted rather than rejected".

Western managers who initially dismissed cultural differences as part of a discredited communist past are now incorporating some into business strategy. Local managers are less likely to emphasise local limitations.

Westerners have some advice for those expecting transfers to eastern Europe: "In Hungary it is very difficult to keep anything secret. In Poland it is important to become an insider quickly while in Czechoslovakia managers must give and ask for feedback."

Contact: Trevor Morris, The Quentin Bell Organisation, 22 Endell Street, Covent Garden, London WC2E 9AD.

Catherine Milton

Case study - Rank Xerox (UK)

Frontal attack mounted on macho military style

The company has suffered from what the Opportunity 2000 team describes as a military management style, resulting in an overwhelmingly macho culture - "white, male, young and boisterous".

The UK sales, marketing and support subsidiary of the international office equipment group employs nearly 5,000 people, 30 per cent of whom are women. Its aim is to increase the number of women managers to 25 per cent by 1995 from the current 15 per cent.

Each year the board announces its highest business priorities - known within the company as the "vital few" - and equal opportunities have been accorded this status.

An intensive programme of workshops has involved all employees, starting with the managers. Viki Ford, Opportunity 2000 manager at Rank Xerox, says that employee involvement has been fundamental to the long-term programme. Discussions identified stereotyped ideas of "men's jobs" and "women's jobs" as a barrier to promotion.



Viki Ford: employee involvement

Case study - Health Service

Big operation to improve the lot of women workers

The NHS has come under fire from, among others, the Equal Opportunities Commission, for being an organisation that is overwhelmingly staffed by women but run by men.

Piecemeal measures had produced few results. Nearly 80 per cent of the NHS's 1m workers are female, making it the largest employer of women in Europe. By the end of 1994 the aim is to increase the number of women in general management posts to 30 per cent, from 18 per cent in 1991.

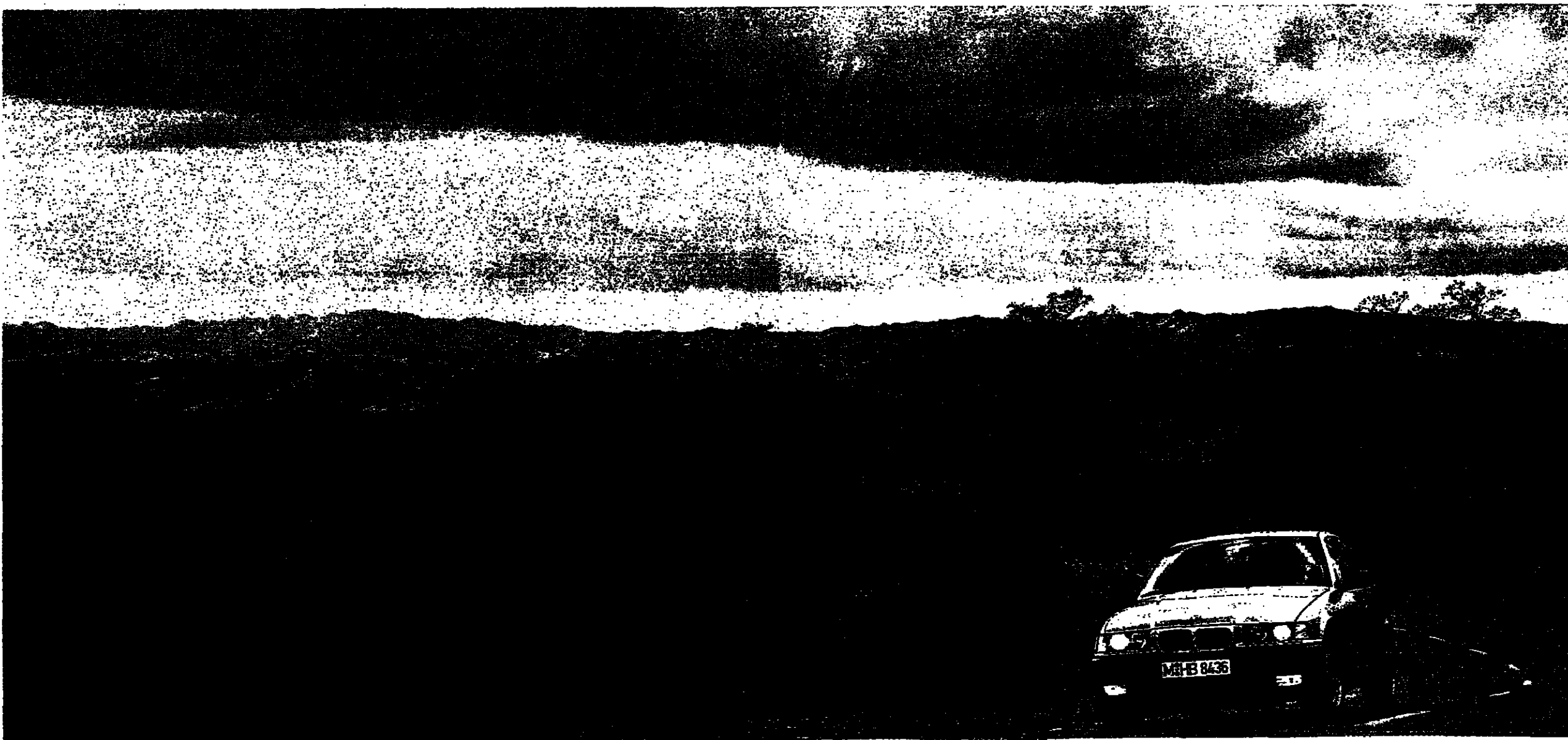
The intention is to push up the proportion of women who are members of health authorities and trusts from 29 per cent in 1991 to 35 per cent by 1994; it is also hoped to increase the percentage of female consultants by 10 per cent each year.

A national register of women in senior management posts is being set up and a career development manager will be responsible for providing details of suitable female candidates for top managerial vacancies.



NHS: staffed by women, run by men

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THE ULTIMATE DRIVING MACHINE.

BUSINESS AND THE ENVIRONMENT

Ian Rodger reports on the recent opening of the world's first household battery recycling plant

Charged up in the Alps

When you switch on a torch, portable radio or alarm clock, you don't think twice about what makes it work until the power runs out. But the humble batteries that help modern life run so smoothly also pose a serious problem in this age of consumer plenty - they are notoriously hard to get rid of.

Not only do dry batteries contain nasty mixtures of metals - among them zinc, iron, mercury, cadmium, manganese, lead, copper and aluminium - but these are also sealed in packages that make the various elements difficult to separate and capture.

Thus the disposal or recycling of batteries is a tough environmental challenge. Until now, there has been almost no organised reprocessing of batteries. In some places, collection and disposal take place, but satisfactory disposal sites are difficult to find. One hazard is that chemical reactions continue in old batteries, especially when subjected to the weather, and mercury and other elements escape into the soil.

It comes as little surprise that the environmentally conscious Swiss are among the first to insist that a more ecologically sound method be found for dealing with this increasingly acute problem. Using a Japanese-developed method, they have come up with the world's first commercial-scale facility for recycling old household batteries, with plans to market the process throughout Europe.

A few weeks ago, this advanced plant, capable of processing almost all types of used dry batteries, was started up in a small village at the foot of the Bernese Alps. The plant recovers most of the metals in liquid form and treats the waste liquids and gases. Among common

In a country notorious for its lengthy planning permission process, Bern managed to push through approval for the recycling plant in only six months

battery types, only those with lithium cannot be processed.

The genesis of the plant was a decree passed by the Swiss government in 1986, classifying dry batteries as special waste for which there were no suitable disposal sites in Switzerland. Another decree obliged retailers, starting in 1989, to take back used batteries.

Immediately Migros, the aggres-

sive and environmentally-aware Swiss co-operative retail group, asked a group of young engineers at the Eidgenössische Technische Hochschule (federal technology college) in Zurich to search for an ecologically sound disposal and recycling process.

Roger Burri, one of the engineers, saw a couple of papers in research journals outlining the efforts of Sumitomo Heavy Industries (SHI) to develop a furnace that would separate the metals in used batteries. A visit to Japan was arranged in 1988, and the group quickly decided that the Sumitomo process, then on display in the form of a 500-tonne-per-year pilot plant, was the route to take.

Its basis is an induction furnace that operates rather like an iron-making blast furnace - at very high temperature and continuously.

First, however, the batteries pass through a shaft furnace where the organic components are pyrolysed (decomposed by heat) and most of the mercury evaporates. The waste gases are then burnt completely in an incinerator at 1,000-1,200 deg C. Solid particles of zinc oxide, iron oxide and carbon are washed out of the hot gas, which is then cooled and the mercury condensed. Mercury is also distilled out of the wash water.

Residue from the burnt batteries then drops into the induction furnace where the oxide compounds of zinc, iron and manganese are melted at temperatures between 1,450-1,500 deg C and reduced to their metallic forms.

Carbon is added to that already present in some battery elements to act as the reduction agent. Metallic vapour is drawn off to a zinc condenser, and the remaining metals, mainly ferro-manganese, and an inert glass-like slag are tapped continuously.

In 1989, a joint stock company, Batrec, was formed to build and operate a plant in Switzerland based on this process, and employing SHI as the supplier. The plant would be a straight scale-up from the pilot plant, with the capacity to process 3,000 tonnes of used batteries per year, about half of Swit-



zerland's total consumption.

The project received wide support across Switzerland. Migros is the main private sector shareholder, other retailers and wholesalers are also involved. From the public sector, the federal government, eight cantonal governments, the city of Zurich and the principality of Liechtenstein have all subscribed for shares, and some have also provided grants.

The federal government provided the site for the plant, on some vacant land in a run-down munitions manufacturing complex near the lakeside town of Thun. In a country notorious for its lengthy planning permission process, Bern managed to push through approval

for the plant in only six months.

The final elements in the equation were the establishment of the supply and economic bases for the plant. The Swiss government imposed an export ban on used batteries from the beginning of 1991, and a national battery collection organisation was set up later in the year. At the moment, the return rate is about 54 per cent, according to Migros.

Starting in October 1991, all manufacturers and importers of batteries in Switzerland agreed to add 10 per cent to their retail prices to cover the costs of processing and recycling. The funds thus collected are turned over to Batrec at the rate of Sfr 4,000 (£1,300) per tonne of

used batteries consumed, the figure the company needs to make what it considers a satisfactory return.

The Batrec process is not cheap. The cost of the total project was Sfr36m, of which the plant accounted for Sfr26m. Energy consumption is about 3,500 kilowatt hours per tonne. "We know it is too expensive, but we want to investigate the whole process and then work on making an economical production system," says Atsushi Naitoh, executive vice-president of SHI.

Burri, now president of Batrec, believes that the ideal size, in terms of economics and the efficiency of the process, would be about 10,000 tonnes a year. At the moment, he adds, "we have a toy here".

He also points out that a large portion of the construction cost was attributable to Switzerland's very severe standards on emission controls. Complete water and air treatment equipment has been installed. Even dioxins, a sensitive subject in Switzerland since the 1986 leakage of chemicals into the Rhine, are kept very low.

Burri says the main problems encountered in operation so far have to do with balancing the charge in the furnace. For example, if the pressure in the shaft furnace is lower than in the melting furnace, the gases from the melting furnace flow up to the bottom of the shaft furnace. The zinc vapour in these gases can condense and plug the outlet of the melting furnace.

Conversely, if the pressure in the shaft furnace is higher, the gases flow from it through the melting furnace into the zinc condenser and oxidise the liquid zinc, creating worthless zinc dross.

Batrec believes it has solved the problem by installing a plug valve which enables it to decouple the gas streams of the two furnaces during the start-up phase.

Another problem is the need to stop the process frequently to refine the furnace. So far, the longest campaign has been four weeks, and refining takes about a week. Burri believes the average campaign can be raised to two months, an improvement that would raise the capacity of the plant significantly.

As a result of Batrec's experience, SHI has agreed to form a partnership to market the process in Europe. "At first we saw Batrec as just our first client, but we have changed our view. They are very good partners to promote this technology. We are quite confident of the hardware, but we do not have the operational knowhow," Naitoh says.

"Through Batrec we have had concrete inquiries from potential customers, but we are asking them to wait. We need to be 100 per cent sure of the gas balance in the furnace."

Fresh concern over ozone hole

By Leslie Crawford

When peasants in the remote south of Chile noticed that rabbits were going blind and their sheep and cattle were developing cataracts, they were witnessing the grim signs of one of today's biggest environmental concerns - the depletion of the earth's protective ozone layer.

Last year, the Financial Times first reported a sharp increase in skin burns, eye complaints and allergies in Punta Arenas, the town at the country's southern tip. Since then, the annuals' plight has prompted keen interest among scientists. Thus southern Chile is about to become the world's first open-air laboratory for studying the health effects of the ozone layer's decline.

Each spring, a huge ozone hole opens up over the Antarctic. US satellite measurements show that the area of severe ozone depletion extends about 6m square kilometres beyond the borders of the continent.

The ozone loss, caused by a build-up of chlorofluorocarbons in the stratosphere, is 10-15 times increased levels of cancer-causing ultraviolet radiation to reach the earth.

Scientists believe that exposure to ultraviolet-B rays can also damage the body's immune system, weakening people's resistance to disease. According to Bedrich Magas, a researcher at the University of Magallanes in Punta Arenas: "It's like getting Aids from the sky." The ozone hole now covers the southern tip of Latin America. Even as far north as Santiago, the capital, scientists have measured a five-fold increase in the intensity of radiation this austral spring.

In Punta Arenas, the increase has been even greater. A team of US scientists from Johns Hopkins University flew there earlier this month to study the impact of this

invisible bombardment of ultraviolet rays on humans and animals. They were alerted to the problem by reports last year of a sharp increase in skin burns, eye complaints and allergies in the area.

It is the first time an international group of eye and skin specialists, immunologists, optical physicists and epidemiologists will have the chance to examine the veracity of these reports, and whether the health complaints can be linked to overexposure to radiation. They will also study the feasibility of setting up a full-scale project to monitor the long-term health effects associated with ultraviolet radiation. Like x-rays, the effects of UV-B exposure are cumulative.

Although the intensity of ultraviolet radiation hitting Punta Arenas is still below the levels

received near the equator, what interests the Johns Hopkins team is the impact of sudden increases in exposure. "We want to know whether these sharp aberrations in UV-B levels, which expose people to several times the amount of radiation they are used to, can cause acute or chronic health problems over the years," says

Oliver Schein, the team's head. The scientists are taking several devices to monitor UV-B exposure in different occupational groups. Farmers, fishermen and office workers in Punta Arenas will carry UV-B dosimeters similar to x-ray counters.

Kirk Gellat, a veterinary ophthalmologist, will be looking at the reports of blindness in animals. "It is possible," he says, "that animals exhibit symptoms before humans because their lifespans are shorter."

The pilot project is being financed by the US Environmental Protection Agency, the Chilean Health Ministry and the University of Chile.



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PEOPLE

'Aberdeenshire man who left Hong Kong'



Lord Wilson (left), who recently retired as governor of Hong Kong, is to become chairman of Scottish Hydro-Electric, the privatised electricity company which serves the north of Scotland. It will be his first boardroom appointment and he will make it his major task. He will succeed Sir Michael Joughin on April 1 1993.

Lord Wilson, who is 57, meets one of the obvious criteria for the job - being a Scot. He took his title, Lord Wilson of Tillymore, from the cottage in Aberdeenshire, at the heart of Hydro-Electric's area, where he spent his home leaves from Hong Kong.

"I have half grown up with Hydro-Electric," he said yesterday.

day, "and walked an awful lot of the hills in the Hydro-Electric area."

However, having been either in government service or in academic life for all his life, mostly connected with Chinese affairs, he is not a businessman and says he will have a lot to learn.

Hydro-Electric is an attractive animal as electricity companies go, with a rural image but a nimble performance in establishing markets and building a gas-fired power station in England.

Joughin, who will be almost 87 when he steps down, was a farmer and broadcaster of Conservative persuasion who was made chairman of the old

North of Scotland Hydro-Electric Board in 1983.

His bluff manner belies the shrewdness which helped him persuade the government to privatise Scottish electricity as two companies rather than one (to the disappointment of ScottishPower). "Electricity will always be a political commodity," he says. Wilson is smoother but, from years of dealing with Chinese, no less politically acute.

Wilson was approached by Hydro-Electric when Joughin read an "Aberdeenshire man leaves Hong Kong" type article about Wilson in the Aberdeen Press & Journal. The efforts of headhunters had proved fruitless.

From Lambeth Council to CRE

Brian Goldthorpe

The Commission for Racial Equality, the statutory body set up in 1976 to help promote equality of opportunity and to eliminate discrimination, is to get its first black chairman.

Herman Ouseley (right), 46, born in Guyana and brought up in Peckham, south London, takes over in February.

His appointment comes at a sensitive time for race relations. Immediate issues facing him will include unemployment - which affects members of the ethnic minority communities disproportionately and is being aggravated by the recession - and the state of race relations law.

Although the government has shown little inclination to strengthen the Race Relations Act in the past, the commission is arguing for changes to "challenge entrenched forms of discrimination more effectively". These would include statutory provision for workplace ethnic monitoring and a discrimination division in the industrial tribunals system.

Kenneth Clarke, home secretary, says he took a personal interest in this "key appointment" to the CRE; the commission had secured in Herman Ouseley a "dynamic and



resourceful" chairman with proven management and leadership skills.

Ouseley has needed these skills to the full in his present post as chief executive of Lambeth council in south London. Lambeth has a long tradition of controversy, sometimes marked by clashes between elected members and full-time officers. Earlier this year Ouseley instructed his staff to walk out of meetings if they were abused by councillors, saying he would not allow staff to become victims of "officer-baiting".

Sir Michael Day, the present chairman who is coming to the end of his five-year term of office, went to the CRE from the West Midlands probation service. Clarke says Sir Michael had "worked ceaselessly towards the fair society we all want".

Brian Goldthorpe, one of Midland Bank's most experienced bankers, died at the weekend after a short illness.

A straight-talking Yorkshireman, he joined Midland direct from school in 1949, rising to become deputy chief executive. After Midland was bought by Hongkong and Shanghai Bank in the summer, Goldthorpe was chosen to become a Hongkong Bank director with responsibility for controlling worldwide credit risk.

However, he resigned because of ill-health in September. He is a particular loss to the bank because he was one of only a tiny number of long-serving Midland executives who survived a series of purges of the top management during the 1980s. Colleagues say his experience will be difficult to replace.

Finance moves

Nicholas Whitney has been appointed chief executive of HOARE GOVETT. Formerly head of UK research at Rowe & Pitman and group research director following the merger with Warburgs, since last year he has run Whitney Research.

Stephen Myhill, head of sales and marketing, has been appointed to the board of BIRMINGHAM MUSHIRES Building Society.

Keith Hewitt, formerly director of strategic development, has been appointed finance director of PREMIER ADMINISTRATION.

Richard Watt has been

appointed head of Latin American investments at GARTMORE INVESTMENT; he moves from Kleinwort Benson International Investment.

Mark Longden, formerly a director of James Capel Europe, has been appointed executive director and worldwide product manager for UK and European equities at LEHMAN BROTHERS INTERNATIONAL.

Ian Stratford-Taylor has been appointed head of global securities borrowing and lending at Union Bank of Switzerland, based in London; he moves from Morgan Stanley International.

Telegraphed

Dan Colson, the London-based Canadian lawyer and long-term associate of Conrad Black, publisher of the Daily Telegraph, is to join The Telegraph group as an executive director from the beginning of December.

He will be director with responsibility for acquisitions and external relations, but will also be vice-chairman of the group - which publishes the Daily and Sunday Telegraph and has stakes in a number of other newspaper groups around the world.

Colson, 45, a senior partner of lawyers Stikeman Elliott, has been a non-executive director of The Telegraph since 1988 and is also a director of Hollinger, its Canadian parent. He is chairman of the executive committee of The Telegraph's associated company in Australia, John Fairfax, publishers of the Sydney Morning Herald and the Melbourne Age.

Sir Frank Rogers remains deputy chairman of The Telegraph. But one member of the star-studded non-executive board, financier Sir James Goldsmith, has decided to retire. Sir James says he is so seldom in the UK that he cannot be present at the periodic board meetings and so cannot meaningfully contribute to the affairs of the company.

Interest Rates effective from 18th November 1992

DEPOSIT ACCOUNTS	gross interest rate p.a.	gross compounded annual rate
Three Month Reserve Account		
£50,000+	6.25%	6.4%
£25,000-£49,999	6%	6.14%
£10,000-£24,999	5.5%	5.61%
Reserve Account for Personal Customers		
£50,000+	5%	5.1%
£20,000-£49,999	4.5%	4.58%
£5,000-£19,999	4%	4.06%
Reserve Account for Businesses/Charities/Societies		
£100,000-£1 million	4.5%	4.58%
£25,000-£99,999	4.25%	4.32%
£10,000-£24,999	3.5%	3.55%
7 Day Notice Deposit Account	1%	1%
TESSA	6.5%	6.66%
Charity TESSA	5.875%	6.01%

* We are able to place sterling and currency with the Money Markets. Rates are subject to daily variation. Further details may be obtained from your branch.

* Where appropriate, Basic Rate Tax will be deducted from interest credited or paid (which may be reclaimed by resident non-taxpayers). Subject to the required registration form, interest will be paid gross.

Base Rate	7% p.a.
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Couets Unauthorised Borrowing Rate	22% p.a.
(where prior agreement has not been made)	
Personal Loan Rate	25.9% APR
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FT SURVEYS

KOREAN FINANCIAL MARKETS

Wednesday November 18 1992

The strict government regulation of South Korea's financial system has outlived its usefulness. But while reforms are badly needed, officials fear that liberalisation could release forces damaging to the economy. John Burton reports

Deliberating over change

SOUTH Korean bureaucrats are in a quandary as they prepare to unveil important financial liberalisation proposals next month.

They realise the country's antiquated financial system needs to be overhauled to improve industrial competitiveness. But they fear deregulation will also unleash forces that could disrupt the economy.

How they resolve this dilemma is one of the most important issues confronting South Korea in the 1990s, since financial liberalisation holds the key to the country's progress.

The government successfully used the financial system to transform South Korea into a mighty industrial power during the past three decades. The state borrowed money from abroad and funnelled it through the quasi-government banking system to strategic industries at low interest rates.

But this system, appropriate for a developing country, has lost its ability to allocate funds efficiently as South Korea's increasingly sophisticated economy defeats efforts to manage it by bureaucratic fiat.

Government controls, including regulated interest rates, stringent limits on capital and foreign exchange transactions, and credit allocation, have led to distortions in the financial system.

The result is high interest

rates caused by a chronic shortage of capital. This has occurred even though South Korea has one of the world's highest savings ratios.

Financial regulation is hampering the country's industrial development at a critical point as South Korea tries to navigate the route taking it from being a low-cost producer of cheap bulk goods to a manufacturer of high-tech products.

Companies have problems funding research and improving productivity because of the restrictions on credit and foreign corporate borrowing. High financing costs have saddled the big conglomerates, or *chaebol*, with huge debt burdens, reducing their profitability.

Many small and medium businesses face the threat of bankruptcy.

The financial system is also discouraging foreign investment since foreign companies have problems raising capital locally or transferring funds from abroad.

Officials acknowledge that the financial system is causing problems but they remain cautious about change. Their hesitation in introducing fundamental reforms reflects concerns ranging from the loss of bureaucratic control and fear of foreign ownership to economic destabilisation and the banking industry's weakness.

Officials argue, for example, that speedy liberalisation



Seoul: the financial system is discouraging foreign investment since foreign companies have problems raising capital locally or transferring funds from abroad

would damage the economy, with a sudden influx of capital causing inflationary pressure and sending interest rates higher.

"We don't want to experiment with the economy," Mr Oum Bong-sung, counsellor to the Minister of Finance, says.

"Credit demand will continue to exceed supply even in a liberalised market," Mr Kim Chang-jok, director of the Ministry of Finance's International Finance Division says.

"Koreans like to speculate and much of the borrowed funds will go into the property market because it offers better rates of return on investment."

"Rapid financial liberalisation would not solve our need for capital and it could reduce

the savings ratio."

The government cites its earlier attempt to deregulate interest rates in 1988, which caused rates to rise and forced the reform to be aborted, as an example of the challenge it faces. It argues that a gradual approach is necessary to avoid adverse side effects.

Most international economists agree that a short-term rise in interest rates is almost certain once deregulation is introduced because of the country's capital shortage. But they add that rates will fall in the long term as capital inflows ease the funding shortage and the increased availability of other financial investments attracts money from the property market.

Also impeding liberalisation is the unpreparedness of domestic financial institutions, particularly the banks, to deal with market deregulation.

The country is overbanked, with large bank staffs, inefficient management and inadequate services. The regulated interest rate system has guaranteed bank profitability since the interest rate spread between lending and deposits is two to four times higher than in the US and Japan.

Deregulation will create the need for rationalisation, while forcing the banks to develop such management skills as credit analysis instead of relying on government guidance in making loans. Bank supervision and regulations must also

be strengthened, including the possible introduction of a deposit insurance system.

But perhaps the most worrying danger facing the banks is that of their large non-performing loans and assets, the result of government policy requiring banks to provide "policy loans" at subsidised rates to strategic industries.

Banks have also been forced by the government to invest in securities as part of an unsuccessful attempt to bolster the stock market, but the value of these shares has fallen.

Although the weakness of the banks is due to government intervention, officials are now using their troubles as a reason to delay liberalisation. Liberalisation, however, has

potential advantages for the banks. Interest rate deregulation will allow them to recover deposits lost to other financial institutions, such as short-term finance companies, which now offer better interest rates.

Slowing down liberalisation is the fear that foreigners, particularly the Japanese, will take advantage of the relaxed controls to increase their economic influence over South Korea. Koreans still harbour strong resentment towards Japan because of its colonial rule between 1910 and 1945.

The government also worries that the *chaebol* will consolidate their economic dominance under the financial reforms. The abolition of credit allocation will allow the *chaebol* to

monopolise financial resources at the expense of small and medium businesses, officials argue.

The *chaebol* have been winners and losers under the financial system. Their growth was spurred by the state-mandated subsidised loans, with easy credit encouraging them to build up huge debt/equity ratios.

But the government has cracked down on the *chaebol* in the past few years in an attempt to curb their power. Limits on foreign borrowing and other credit restrictions have driven up their financial costs, while increasing their debt burden.

Although financial liberalisation would remove one restraint on the *chaebol*, the government has other ways of keeping them under control if it introduces new rigorous anti-trust laws.

But financial liberalisation will still represent a loss of power for the bureaucracy, which has used financial controls to keep industry dependent on the state. Deregulation will also mean the government will have to compete against the *chaebol* in acquiring funds, raising state costs. Consequently, there is resistance among officials to reforms.

All these concerns will almost certainly lead Seoul to reject the Anglo-American model of a financial system governed largely by market forces. Instead, reforms will follow the Japanese model,

with the easing of some controls and retention of others to ensure that the financial system still plays an influential role in industry policy.

Less certain is whether South Korea will be able to stick to its preferred course of gradually relaxing interest rates and foreign capital movements.

The country is under pressure from the US to accelerate the liberalisation process. A "wild card" is the possible sudden collapse of North Korea and a German-style takeover by the South. This would cause an enormous demand for capital and may force it to open up its financial market more rapidly to attract foreign investment.

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KOREAN FINANCIAL MARKETS 2

Seoul's efforts to curb the economic power of the chaebol have come under fire

Industrial empires still dominate

THE South Korean government's tight regulation of the financial system is closely linked to its industrial policy. Officials argue that they must retain control over the financial system in order to curb the economic power of the family-owned conglomerates, or chaebol.

The government wants to make the chaebol more efficient by forcing them to prune their sprawling industrial empires and instead concentrate on a few important core businesses. It also seeks to reduce what it considers the pernicious influence of the family owners on corporate management.

But critics contend that the state's use of the financial system to achieve those goals has failed and should be abandoned.

"The economy has become too developed for the government to rely on the financial system as an effective instrument for industrial restructuring," said Mr Jwa Sungho, a researcher at the Korea Development Institute (KDI), the government-affiliated policy centre.

The government originally used its power over the financial system to promote the growth of the chaebol in the 1960s and 1970s by providing them with cheap loans. Then President Park Chung-hee believed that the emergence of the business groups would help the country to industrialise quickly.

But by the 1980s, the government of President Chun Doo-hwan decided that the chaebol had grown too large. They were monopolising bank loans and their economic dominance was hindering the development of small and medium businesses.

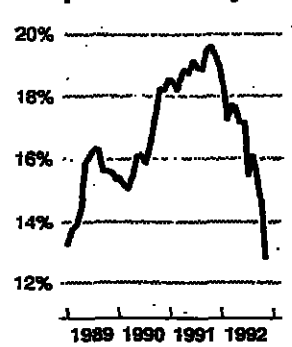
Moreover, the chaebol were criticised for spreading their resources too thinly by competing in many of the same industries.

trial sectors, from cars and ships to construction and electronics. The intense competition reflected the personal rivalry among the chaebol's family owners.

Credit restrictions were introduced in the mid-1980s, which limited the percentage of bank loans that could be given to the chaebol. However, the export boom of the late 1980s weakened the impact of the credit controls and had little appreciable effect on the growth of the chaebol. They still enjoy lower financing costs than smaller companies, which must often borrow from the secondary "black market" at higher interest rates.

The chaebol believe that the government's attempts to regulate them are misguided. They argue that industrial diversification is important because profitable subsidiaries are able to support the emergence of new industries.

Corporate bond yield



Source: Robert Fleming

KOREA'S leading corporate names are pressing for freedom to tap international capital markets in order to reduce funding costs and improve the competitiveness of their products.

The cheaper borrowing available in the international bond markets is particularly attractive to Korea's high-tech companies which need to invest heavily in research and development to compete at an international level. Korean companies have tapped international capital markets with a growing number of issues since the mid-1980s. Overseas securities offerings peaked in 1991 as Korean companies raised a total of \$1.06bn in convertible bonds, bonds with warrants and depositary receipts, according to the Securities Supervisory Board. So far this year, companies such as Pohang Iron & Steel (Posco), one of the country's largest steelmakers, and Korea Electric Power Corporation (Kepco) have borrowed in the Yankee bond market and others are lining up to follow suit.

However, Korean companies complain about government restrictions on

using some of their profits from the 1980s boom to invest in property, which helped increase land prices and caused public protests.

Although the chaebol engaged in property speculation to help raise funds that were denied them through the banking system, the government argued that the companies should have invested more of their earnings in research and development or improving industrial facilities.

The government last year stipulated that the 30 biggest chaebol should each select three core businesses that would form the focus of their future activity.

The intention was to continue to use the chaebol as vehicles for economic development by lifting credit restrictions on the designated core companies, while squeezing credit given to other subsidiaries in compliance with the government's goal of reducing

the size of the chaebol. But this compromise solution has been called a failure by the KDI in a recent report. Instead of selecting high-tech business areas as the government hoped, the chaebol picked either financially weak or capital-intensive subsidiaries for the unlimited bank loans.

A number of core companies were in the same business sectors, contributing to a duplication of industrial operations. Twelve chaebol, for example, selected petrochemicals as one of their core activities, even though Korea is suffering from excess production capacity and unprofitability in this sector.

Another weakness with the system is that there are few controls to determine whether the core companies are funneling the bank loans to non-core concerns.

The proportion of bank loans to the top 30 chaebol has barely changed since the policy was first introduced, and the num-

CORPORATE BORROWING

Searching for funds

overseas borrowing: the business community has been lobbying for the removal of all controls as the Ministry of Finance proceeds with the liberalisation of the domestic financial markets.

At present, Korean companies may only tap the international capital markets if the proceeds are used either for investment in their overseas operations or to finance the import of advanced technology unavailable in Korea. The proceeds may not be repatriated for the financing of domestic operations.

While officials at the Ministry of Finance are well aware of the benefits of lower funding costs to Korea's leading corporate names, they remain concerned about the possible effect of such borrowing on the Korean economy. The restrictions reflect government concern

that the money raised abroad would be transferred back to Korea, increasing the money supply. The government is determined to curb inflation and has set its M-2 money supply growth target at 18.5 per cent for the year.

To tap international capital markets, companies need permission from the Ministry of Finance and, at present, corporate demand exceeds the amount permitted, according to investment bankers in Seoul.

Domestic sources of financing remain limited or relatively expensive for borrowers. The weak state of the stock market has made it difficult for companies to issue large domestic share offerings. The cost of borrowing in the domestic bond market remains relatively high, even though three-year cor-

porate bond yields have fallen from over 19 per cent at the end of 1991 to below 13 per cent in October. Meanwhile bank loans are subject to guidelines on credit allocation and so are not always easy to obtain.

For high-tech companies such as Samsung Electronics, Korea's largest electronics group, and Hyundai Motor, the car manufacturer, which need to invest large amounts in research and development, the high cost of funding in the domestic markets can prove a handicap.

"The availability of funds is one of our main problems, as well as the cost of funds," says Mr Young-Key Hwang, executive director and group treasurer at the Samsung Group. He reckons that the cost of funds in the international capital markets approaches 8.5 to 9 per cent, while domestic bond yields are still in double digits. The result would be to force Korean companies to curb capital expenditure and focus on the rationalisation of their businesses.

Sara Webb

SECURITIES

Going gets tough

securities houses made losses in the first six months of the financial year, with combined losses for the 10 largest brokers amounting to Won76bn.

The outlook remains bleak as Korean securities houses expect to face increased competition from the handful of foreign brokers that have opened branches in Seoul. Branch status allows a foreign securities house to conduct research and liaison business, and to generate revenue by placing buy and sell orders. However, the orders have to go through a Korean broker, who receives 30 per cent of the commission.

Jardine Fleming, one of the first to open a branch, admits that under current market conditions it is not making a profit on the brokerage side: instead it makes money by investing part of its Won10bn minimum capital requirement in the high-

yielding bond market and from proprietary trading. Baring Securities and Jardine Fleming both made small losses in their first year as branches, but compared with their domestic rivals, they have the advantage of being leaner outfits, without a large branch network and huge workforces.

The domestic houses see them as a threat for several reasons. First, Koreans would prefer to do business directly with overseas investors, rather than share the commission with a foreign house. Secondly, they are worried that foreigners could steal their domestic institutional clients. So far, foreign houses have made little headway on that front. Business in Korea depends primarily on relationships built up over many years. As one Korean stockbroker puts it: "In Korea there is

no big difference between the securities houses in terms of transaction costs or research. Fund managers often have their own research team - what is more important is the relationship with the broker, the frequent calls, visits and dinners."

Yet attitudes appear to be changing. Foreign houses place far more emphasis on the quality of their research and some Korean houses admit that with the arrival of foreign houses, Korean institutions are showing a keener interest in the research material put out.

Finally, if stock market activity picks up, some foreign houses may be tempted to put up the relatively large sum required for a seat on the stock exchange, allowing them to trade directly. "At the moment, the volumes generated simply do not justify a seat," says Mr Philip Smiley, branch manager of Jardine Fleming. But if and when they do, Korean brokers believe they will provide "really tough competition".

Sara Webb

THE STOCK MARKET

Analysts sceptical

THE Korean stock market remained tantalisingly out of reach for overseas investors during the high-growth years of the 1980s. Those who wanted to profit from Korea's enviable economic performance had to be content with investing through country funds and convertible bond issues, while continuing to press for direct access to one of Asia's most exciting markets.

In January 1992, their wish was granted. Restrictions on direct ownership were relaxed, but the opening up of the market could hardly have been less auspicious. Overseas investors were confronted by cumbersome red tape, less-than-generous limits on ownership and a market in decline.

The Korea Stock Price Index (KOSPI) started the year at 824.23 and tumbled to a low of 459.07 on August 31, well below the all-time high of 1007.77 seen on April 1, 1989. Worries about the slowdown in economic and corporate earnings growth and the trade deficit lie behind the fall.

With such a lacklustre performance, foreigners were reluctant to rush in at first. Net foreign investment reached \$1.37bn in the first 10 months, well short of the \$2.4bn initially predicted.

Limits on foreign ownership were set at 10 per cent for most companies, although some, such as the Korea Long-Term Credit Bank - are free to raise the threshold to 25 per cent if they wish. So far, the foreign ownership quota has been met by only 70 or so out of a total of 890 listed companies.

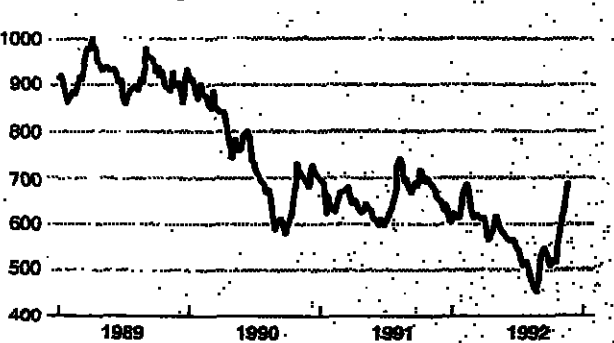
About 15 of those 70 companies have reached the upper limit through direct portfolio investment, according to the Securities Supervisory Board. The remainder reached their 10 per cent limit through joint venture or direct investment agreements.

The limits pose serious problems for international investors, diminishing their appetite for Korean stocks. The main problem is liquidity. Big investors who want to buy or sell \$3.4m in one stock are restricted in their choice. In addition, global fund managers tend to be guided by international indices when allocating assets. Korea, which is not a completely free market, has only 20 per cent of its market capitalisation included in the Emerging Market Free Far East Index provided by Morgan Stanley Capital International, whereas countries such as Indonesia and Thailand are included at 100 per cent.

"At 10 per cent the market is still effectively closed to foreigners," says Mr Torquil McAlpine, branch manager of Schroders in Seoul. Foreigners hope the Ministry of Finance



Korea composite stock price index



Source: Robert Fleming

may soon raise the limits to 20 to 25 per cent for most listed companies. Such a move would "be a shot in the arm for the market and would send a message to international investors that Korea is adopting a more open attitude," says Mr Peter Thorn, branch manager of W I Carr in Seoul.

That Korea needs to send such signals to global investors is clear. A recent Euromoney survey of investor interest in the emerging markets showed Korea trailing behind other Far Eastern emerging markets such as Malaysia, Taiwan, Thailand and Indonesia.

Analysts claim that many of the risk capital investors who would once have been wooed by Korea are now turning to the next generation of Asian tigers such as China and Vietnam.

The government has tried to encourage investors with a string of rescue packages aimed at reversing the stock market's decline. In December 1989, Korean investment trust companies were told to borrow funds from banks and invest the money in the stock market. In May 1990, a 4,000bn-won stock market stabilisation fund was set up. The proceeds - provided by listed companies - were intended for equity investment. The measures provided only short-lived relief in the market, which then continued its decline.

The most recent support measures, announced shortly after the market hit its low this year, were intended to force institutions to buy

stocks. Institutional investors must remain net buyers, with bank trust accounts, insurance companies and pension funds instructed to invest a specified amount within a set period.

Additional measures were proposed to woo back individual investors, increase liquidity and reduce market interest rates. The market has since shown signs of recovery, helped by the fall in interest rates, the decision to lift restrictions on foreign ownership of shares in Poeco (the iron and steel company) and Kepco (the power group), as well as the feeling that the stock market was looking cheap. As a result, the index has recently risen to levels seen at the start of the year.

Many investors are hoping the winner of December's presidential election will propose measures to boost economic growth which would provide further impetus for the stock market. However, analysts remain sceptical about the extent to which the market can recover, primarily because banks, brokers and financial institutions are sitting on an estimated \$10.15bn (out of a total market capitalisation of about \$75bn) in shares due to the assorted market-support measures. There is no doubting their desire to offload the stock as soon as a suitable opportunity arises, and it is this overhang of stock which analysts believe could hold the market's rally in check.

Sara Webb

A FOREIGN fund manager visiting a Korean securities firm in the high-rise financial district of Yoido was horrified to find the staff playing table tennis.

His tale is not unusual: the Korean securities industry expanded rapidly in the late 1980s, but many stockbrokers now find they are overstaffed and overbranched at a time when commission income is falling because of the weak stock market. Added to this, competition on their home turf has increased as several foreign securities houses have set up branches in Korea to accompany the opening of the market to foreigners.

The securities sector is in need of rationalisation. Overheads are high, after expansion at home and abroad, but Korean securities houses are reluctant to cut branches and staff. Given the Korean cultural aversion to seeking employment, securities companies admit the only way they can curb growing wage bills is by halting annual recruitment.

Commission income for equity trading is down as the

A BUREAUCRATIC struggle being waged between the country's three leading economic agencies will largely determine the future of South Korea's financial liberalisation programme.

The Economic Planning Board (EPB), traditionally the senior economic agency in the government, favours an accelerated push for financial liberalisation. But the Ministry of Finance (MOF) is resisting rapid change and wants to maintain control over the financial system.

Caught in the middle of the dispute is the Bank of Korea (BOK), the central bank, which has become a proponent of financial reform in a bid to gain independence from the MOF, its political master.

The EPB has been the most influential state economic agency since it was established in 1961 by President Park Chung-hee to supervise South Korea's industrialisation programme.

It played the central role in South Korea's dirigiste economy over the next three decades, drawing up five-year plans that determined the country's industrial structure. EPB's strength reflected the concentration of power within the Blue House, the executive mansion, under Presidents Park and Chun Doo-hwan.

One indication of its senior position in the official hierarchy is that the EPB director is also automatically the deputy prime minister, while the EPB headquarters physically dominates the Kwachon government complex, overlooking the other economic ministries from its hilltop location.

But the EPB's power has waned under President Roh Tae-woo who has favoured decentralising power to the individual ministries as part of

the country's democratisation process. Mr Roh, who likes foreign policy, has also paid less attention to economic issues than his predecessors.

"The EPB has become an institution without a role as economic planning becomes less important," says one western diplomat. "It is becoming more academic in its thinking and more liberal in its policy recommendations, including financial liberalisation."

The case for financial liberalisation within the EPB is supported by the fact that many of its senior staff were educated at US universities and have been influenced by market-based economic theories. The MOF gained influence at the EPB's expense, consolidating its already powerful position in the Korean bureaucracy.

Critics charge that the MOF is becoming the centre of resistance to financial reform because its officials are reluctant to relinquish the power they wield. Under the current regulated financial system, the MOF determines the allocation of credit to industry, decides what companies can borrow funds from abroad and who will lead the nation's banks.

Due to their influence, MOF officials can also find secure jobs in the financial sector once they retire from government. "Retired MOF officials won't have any place to go to under financial liberalisation," said one Korean financial analyst.

MOF officials disagree. "MOF is being blamed more than it ought to be," says Mr Oum



Cho Soon, the new BOK governor

Bong-sung, an advisor to the Finance Minister. "Our critics are unaware of the practical difficulties of financial liberalisation."

But some of the most harsh comments within the MOF are reserved for the BOK. Tensions between the two agencies have grown in the past few years as the BOK attempts to assert its independence from the MOF.

The BOK is now one of the most tightly controlled central banks in the world, according to a recent study by the World Bank, which ranked it as 42nd out of 56 central banks surveyed in terms of independence. "The government favours keeping control over both fiscal and monetary policies, so it wants continued co-ordination between MOF and the BOK," explains one MOF official.

The government has often

interfered in BOK operations, frequently replacing its governors and encouraging an expansion of the money supply in an attempt to boost economic growth.

But Mr Cho Soon, the new BOK governor appointed in March, has become outspoken in criticising the government and demanding financial reform. Mr Cho was head of the EPB between 1988 and 1990, but was forced to resign because his strong views on economic deregulation angered politicians and the business sector. His appointment as BOK governor was consequently considered something of a surprise and he has lived up to his reputation for independence.

Earlier this year, he successfully fought to tighten the money supply in a bid to lower the inflation rate and restore stability to the country's overheated economy. He is now battling with the MOF in pushing for faster deregulation of interest rates.

Interest rate deregulation would improve the BOK's ability to control the money supply and fight inflation, while giving it a more independent role through its exercise of open market mechanisms. It would also deprive the MOF of its power to allocate cheap credit to favoured industries - one of its most cherished privileges. MOF announced last year that it would deregulate interest rates in four stages by the end of the century. The bank and the ministry are now arguing about when to introduce

John Burton

sector C ahead

KOREAN FINANCIAL MARKETS 3

Financiers await the most important phase of liberalisation

Sector on tenterhooks ahead of proposals

THE Korean financial sector is holding its breath. Proposals to be unveiled next month could radically alter the shape of the system, but uncertainty remains about how far-reaching the changes will be and when they will be completed. The steps to be announced in December are the last - and the most important - of the three-stage financial liberalisation blueprint that the Ministry of Finance (MOF) has been preparing this year.

The MOF agreed to produce a schedule of measures after President George Bush's visit to South Korea in January. The US, Seoul's closest ally, has been pushing for financial liberalisation to improve investment prospects for foreign companies in South Korea.

The first two phases, unveiled in March and June, consist of measures designed to allow foreign financial institutions greater access to the Korean market. However, these reforms, which will take effect between now and 1996, will have only a limited impact on the structure of the Korean financial system since they are concerned with relatively minor issues.

Included are measures making it easier for foreign banks - which face restrictions on bringing capital into the country - to raise local currency funds in the domestic market. The amount of certificates of deposits that foreign banks can issue locally is being increased and foreign banks will be given equal treatment in the inter-bank market.

A reduction in foreign exchange restrictions is also being introduced to improve access to funds. Limits on foreign exchange positions of banks will be eased, while the band for exchange rate fluctuations is being widened. These measures are expected to lead to the internationalisation of the Korean Won.

It is the third set of long-term measures, scheduled for implementation after 1997, that deal with the fundamental

principles of the current tightly-regulated system. The issues include:

● Full-scale interest rate deregulation, which provides the foundation for other financial liberalisation measures. The government has already started to deregulate interest rates in four stages, a process that is expected to be completed by the end of the century. Long-term rates will be deregulated before short-term ones, while lending rates will be freed before deposit rates.

● Deregulation is expected eventually to reduce interest rates, which are now higher than those of Korea's main trade competitors. It will also end the practice of "policy loans" which banks must grant at below-market rates to industries deemed strategic by the government. Policy loans account for 45 per cent of total bank credit and have contributed to the banks' bad-debt problems.

● The liberalisation of capital transfers into and out of Korea. This will give Korean companies greater access to international capital markets and reduce their borrowing costs, while promoting increased foreign investment. The Ministry of Finance now regulates tightly which Korean companies can borrow from abroad.

● The abolition of credit allocation controls. Banks are now required to provide at least 35 per cent of their total lending to small and medium businesses, while they face restrictions on lending to big business groups.

● Financial market deregulation. The stock market opened to limited direct foreign investment at the start of this year. Controls are also being lifted on the domestic bond market, with foreign participation scheduled to take place after 1997. There are plans to establish a commodity and financial futures market. Korea needs better developed financial markets to improve its open market mechanisms governing monetary policy.

Although the MOF is committed in principle to achieving these long-term goals, questions still remain about the effects of the liberalisation programme on the financial system.

Decisions will be guided by the Korean preference for a financial system similar to that of Japan, where it is considered an instrument for guiding industrial policy. Thus the MOF recommendations may disappoint supporters of a more market-led Anglo-American financial system.

The Korean government might try to retain influence over the financial system by continuing to restrict the independence of the Bank of Korea, the central bank, and influencing the appointment of senior bank executives.

Another factor that will affect the outcome of financial liberalisation is the future ownership structure of the domestic banks, which have been the main tools of government control of the financial system.

The Federation of Korean Industries wants the government to allow the big industrial conglomerates, or *chaebol*, to become main shareholders in the commercial banks.

It argues that *chaebol* ownership would promote competition within the banking industry and enhance management efficiency. It would also extend the *chaebol's* ownership over a large share of Korea's financial institutions.

Bank ownership is now fragmented, with no individual shareholder being allowed more than a 8 per cent stake. The dispersed ownership of the banks allows the government to retain influence over the banking sector in spite of its privatisation in the late 1980s.

The government consequently will resist the *chaebol* ownership of banks. Instead, it hopes the banks will take control of other financial institutions and reduce the *chaebol's* power.

Another unknown factor is the question of when the financial liberalisation programme will be completed since the government has given an open-ended deadline. "We

know the key structural changes will start in 1997, but we fear they could take as long as a decade or two to complete," said a US official. The MOF has set economic preconditions for introducing the third-stage reforms since it fears rapid deregulation could cause economic instability. It wants Korea to maintain a consistent current account surplus. Inflation must fall to 5 per cent, while the differential between domestic and international interest rates should narrow to 2 to 3 per cent.

The foreign financial community is concerned about whether economic targets can be achieved without introducing some of the third-stage reforms. "It's a chicken-or-egg situation," said one US banker. But a recent improvement in economic performance is bringing those targets within sudden reach. The current account deficit could shrink to \$5.6bn from \$8.7bn in 1991. Inflation is expected to fall to 6.6 per cent for the year, while the interest rate gap is narrowing.

The improved economy and pressure from international financial advisors, such as the International Monetary Fund and the World Bank, could eventually force the government to accelerate financial liberalisation.

John Burton

KOREA'S banks face a tougher future. The planned deregulation of the country's financial markets is expected to lead to fiercer competition forcing banks to focus on improving profitability through the reduction of overheads and better credit analysis. "For the banks it will be like the Wild West," says Mr Young-Wook Chin, director of the Bank Division at the Ministry of Finance. "They will have to develop new strategies."

Korean banks have led a closely-regulated existence for many years. Privatisation may have freed the commercial banks from direct state control, but they must still obey guidelines on credit allocation, while interest rates on loans and deposits have been tightly regulated.

The first stage of interest rate deregulation at the end of 1991 affected bank overdraft loans, commercial paper, overdue loans, bank certificates of deposit, trade bills, repurchase agreements and corporate

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PROFILE: CITICORP

Eyes on consumers

KOREANS can spend years cultivating relationships with their bank managers in the hope of eventually being able to borrow enough to buy a home. Korean banks prefer lending to the big industrial conglomerates dominating the Korean economy than to the ordinary consumer.

Hence Citicorp's decision to break into the consumer banking market. One of the few foreign banks to have set its sights on the retail business in Korea, after five years it has 12 branches in Seoul and Pusan, the second largest city, and has won a reputation for good service by keeping a relatively high proportion of account managers to customers.

"The business opportunities here are fabulous," says Mr Howard Greene, Citicorp's country head of global consumer banking in Korea.

Citicorp has been successful because it has focused on products which domestic banks failed to develop. In the mortgage business, Korean banks tend to advance up to \$40,000 (about Won30m).

Some of the more paternalistic

Market share of foreign banks (%)						
	1986	1987	1988	1989	1990	1991
Deposits	1.6	1.5	1.0	1.1	1.6	1.9
Won	1.4	1.3	1.0	1.0	1.6	1.7
Foreign currency	6.0	3.2	1.1	2.5	2.3	4.2
Loans	10.9	10.2	8.5	6.8	6.0	5.5
Won	5.9	5.8	5.6	4.5	4.2	4.8
Foreign currency	63.3	44.6	34.1	28.3	22.9	21.0
Total assets	10.8	10.5	9.4	8.7	8.1	6.8

Source: Bank of Korea

employers - for example Poeco, the iron and steel group - help their employees own a home by lending them money at a lower interest rate.

But for many Koreans, the only way to scrape together enough is through a *kye*, an unregulated credit association run by relations and family friends who pool their money. Citibank said it would lend up to \$200,000 for a mortgage, provided the borrower met its creditworthiness criteria.

The US bank is now experimenting with drive-in automated teller machines, having spent months persuading the authorities to let it set up 24-hour touch-screen ATMs. Next year, it plans to overhaul its

day-to-day banking products and services in what is still a predominantly cash society.

Citicorp says it is targeting upper-middle class customers rather than those described by bankers as "high net worth individuals". Already, it is making a small profit on its retail operations: this year it expects to make \$4m, with a further \$8m in 1993, compared with a loss of \$3m five years ago. It has set its sights on capturing between 2 and 3 per cent of the retail banking market. But even that tiny portion has worried some of the Korean banks who resent the competition in their own backyard.

Sara Webb

New strategies will be needed after deregulation

'Wild West' in view

bonds with maturities exceeding two years.

However, the most important step will be the next one, consisting of the deregulation of interest rates on all bank lending (with the exception of loans financed by the government), longer-term deposits with maturities of more than two years, corporate bonds with maturities of less than two years and bank debentures with maturities of over two years.

Mr Choi Kak-Kyu, Economic Planning Board Minister, recently said this step would not be implemented until the first half of 1993. Once effected, 75 per cent of lending rates and 30 per cent of deposit rates will have been deregulated, according to the Korea Federation of Banks. By

1997, all interest rates should have been deregulated.

The lifting of interest rate regulations is expected to result in a narrowing of interest margins. The Office of Bank Supervision warns that liberalisation of interest rates will lead to tougher competition between the banks and lower profitability. So banks will have to focus on improving profitability in a number of ways. These include:

● Reducing expenditure and overheads. Many Korean banks have large branch networks and are overstaffed, with cumbersome administration departments. Some have stopped hiring new staff, and are supplementing expensive offices with automated teller machines.

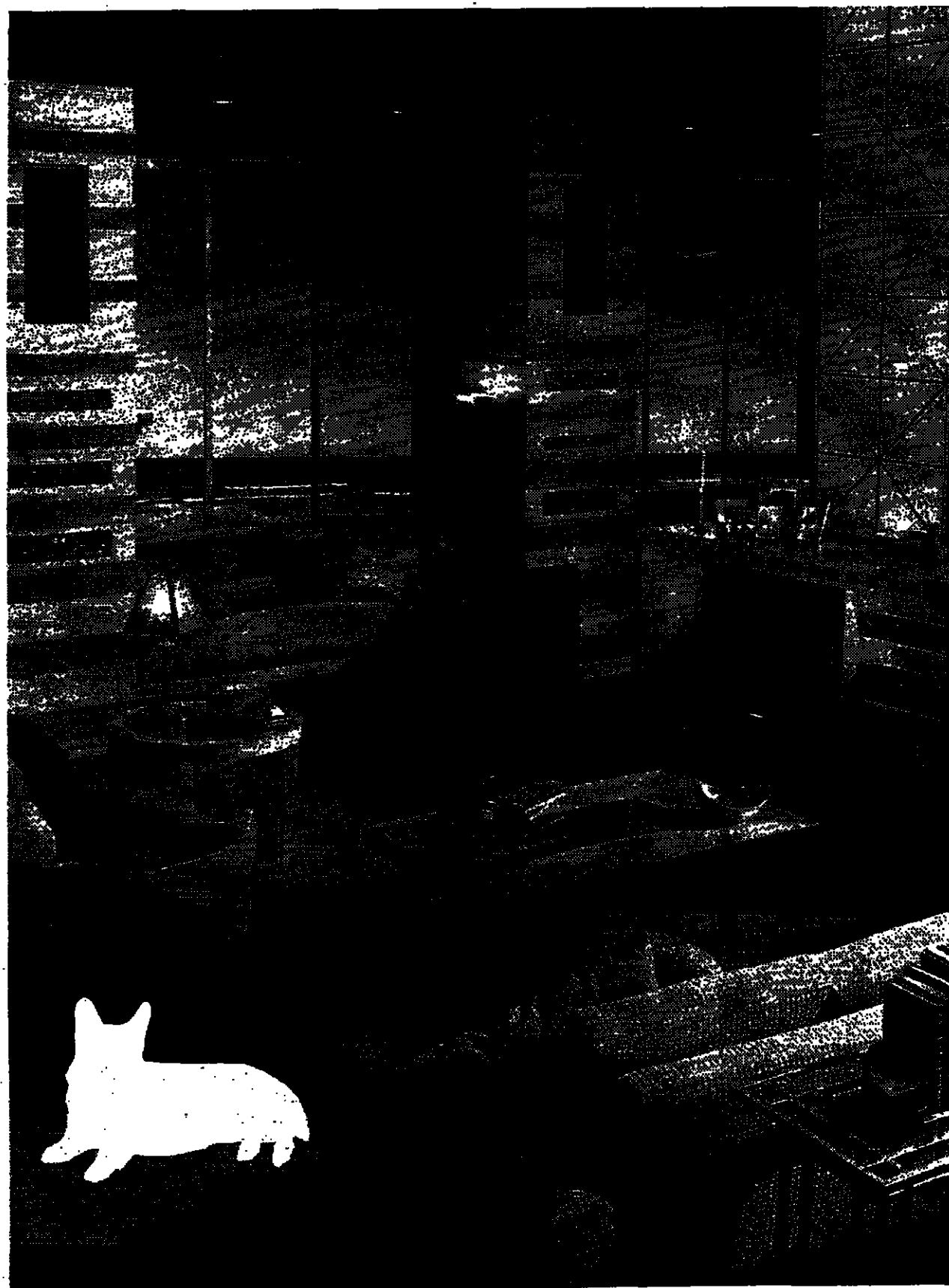
● Introducing more competi-

tive products which provide a higher return. Banks are already trying to move away from interest-bearing to more fee-based services, according to the Korea Federation of Banks, both in the corporate and consumer area.

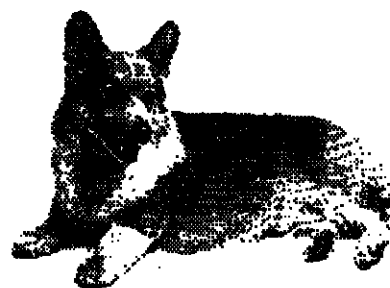
● Improving credit analysis. Existing guidelines on credit allocation have done little to encourage good credit analysis and, in the words of one foreign banker, "the result is that lending is not conducted purely on good business sense and credit analysis".

But some analysts are worried the proportion of non-performing loans may rise further in view of the characteristic high gearing of Korean companies and difficulties faced by the smaller companies.

Sara Webb



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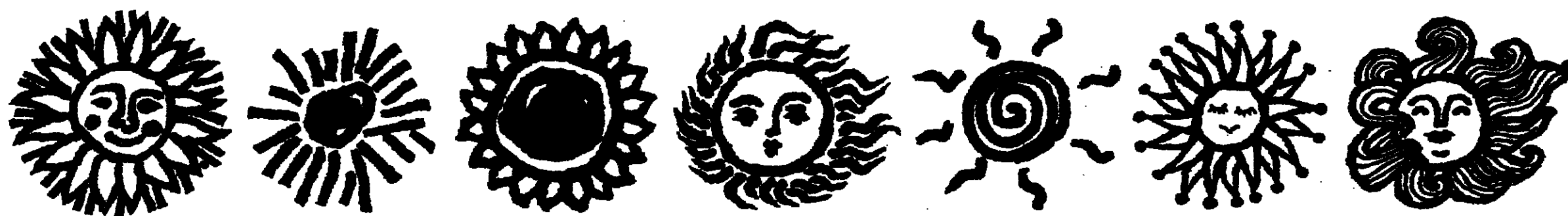
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Television/Christopher Dunkley

Marks and sparks drama

More and more time on British television is being devoted to what might be called Marks and Sparks drama. TV and BBC1 now depend on it to such an extent that you can find an example virtually every night serving, in mid-evening, as the keystone in the scheduling arch of one network or the other, sometimes both. Given its popularity and high production standards, it would be supercilious, and in some cases inaccurate, to dismiss the entire genre as middlebrow soap opera. But given its popularity, costs, and growing importance in the ratings, it seems as well to recognise precisely what it is.

Then again, perhaps it is easier to see what it is not. For instance one-off plays are scarcely Marks and Sparks drama, because with M & S you need to be able to go back next week and find something virtually indistinguishable from what pleased you this week. Almost all single dramas arise from the consciousness of a single, often idiosyncratic, author. Thus the first in a new BBC2 season of "Performance" on Saturday, Christopher Hampton's *Tales From Hollywood*, falls on four counts: it emerged entirely from his mind, was originally written for the theatre, is not a serial or sequel, and was in large part non-naturalistic. It was splendid to see effort put into the use of studio production for once, and the stylistic tributes to Edward Hopper, *Sunset Boulevard* and so on were fun, even if the end result was a teeny bit yawn-making. But it was not M & S.

Nor is any adaptation, from *The Borrowers* to *Clarissa*, because adaptations are, by their very nature, finite and one of the essential characteristics of M & S material is that you should be able to go on dish it out forever, or at least so long as the public maintains its demand. Thus

GBH and *The Singing Detective* also fall outside the genre. Not only are they finite, they serve the haute couture end of the market: high quality and originality, even a degree of eccentricity. Series such as *Chivvies* may appear at first to be Marks and Sparks material when they are screened in M & S slots, but these too have to be disqualified on the grounds that they cannot be strung out indefinitely.

Perhaps the easiest definition is a list. You can currently see *Trainer* tonight (BBC1), *Rumpole Of The Bailey* tomorrow (ITV), *Casualty* on Saturday (BBC1), *The House Of Eliott* (BBC1) and *London's Burning* (ITV) on Sunday, and *Kinsay* (BBC1) and *Boon* on Tuesday. Other, current or recent examples might include *Soldier Soldier*, *The Ruth Rendell Mysteries* and *Taggart*, though once you start including detective series it is hard to know where to stop. *Poirot* and *Miss Marple* should probably be excluded on the grounds that they are adaptations and therefore finite, but what about *Inspector Morse*? Though the original programmes were taken from books, *Morse* scripts are now turned out by a team of script writers so in that and other respects *Morse* would seem to be a prime example of the genre.

What do these series have in common? They are nearly always 50 to 60 minutes long or suitable for transmission in 60 minute slots. They are naturalistic, with frequent use of outside locations (the amount varies, less in *Casualty*, more in *Boon*) and each episode costs far more than twice as much as a 30-minute episode of a soap opera such as *Coronation Street* or *EastEnders*. They consist of high quality and of mass-production and, of necessity, scripts for practically all of them are commissioned from jobbing writers. A good book may be, as Mil-

ton said, "the precious life blood of a master spirit" and once in a while you will come across a Marks & Sparks drama series which emerges from the mind of a single writer. *Rumpole* is the obvious example, but because John Mortimer writes all of them there is never more than a handful of *Rumpole* scripts each year. Mortimer might be appalled at the ease and accuracy with which commissioned writers could turn out *Rumpole* "forgeries", but presumably that will not happen while Mortimer is willing to continue. In other series, where 20 or 30 or even 40 scripts a year may be called for, the use of writing teams is unavoidable. *P.A.R.A.* The result is drama which, like Marks and Spencer's clothes, benefits from a high level of quality control and is consequently consistent, safe, good value for money, reliable and wholly predictable. Most of the population will feel comfortable with it, and won't mind in the least if mother sees it. We are assured there was a bare breast in this week's *Casualty* but if there were it would not have shocked Annie Ethel: amid the efforts of the heroic nursing staff and the laughter and tears of all those fleeting bittersweet moments among the saline drips and kidney bowls, with the prize fighter and the fallen pylon man, some of us missed it altogether.

M & S products do not enrage the customer or present any threat: practically everyone feels comfortable with them. M & S products do not go to extremes, indeed they stick as close as possible to a line through the middle of the market in order that as few people as possible will be put off. M & S products are reassuring and familiar. Above all M & S products are respectable. There is the occasional risqué moment in *London's Burning*, as when the non-drinking driver on the disastrous basket ball outing retired



Rupert Frazer and Louise Lombard in 'The House of Eliott'

with his floppy to the mini-bus this week, but the hurried tucking-in of a shirt was the furthest that anything went.

Even within the genre standards do vary, of course. *Trainer* is an attempt to make an English *Dallas* with lashings of glamour and rich-bastards stabbing one another's backs while the little people are ground down at the bottom. Usually it fails because the English have neither the chutzpa of the Americans nor their flair for off-the-wall craziness. Who could care less about any of the characters in *Trainer*? *Kinsay*, on the other hand, does have some interestingly developed characters, yet even they (the spunky secretary, the villainous competing solicitor, the liberal hero Kinsay himself) are remarkably predictable.

M & S drama is workman-

like, with plenty of narrative, and nothing to shock you or take you by surprise. No doubt it provides pleasant evenings for lots of people. But is that really all we require from these huge swathes of peak viewing time? Good art, not to mention great art, has always been produced by those who have paid close attention to life. Just as the Modern movement rapidly became tedious because its proponents reacted too often to one another's work rather than the whole of life around them, so M & S drama seems all too often to be produced by people who have been observing not life but merely other television series.

Good drama keeps on surprising you by showing human attributes which are fresh and striking yet entirely credible judged against your own experience. Watching a

drama by Shakespeare or Michael Frayn you know that the authors have been keeping a sharp eye on their fellow men. Watching *Boon* or *The House Of Eliott* you are more likely to think "I know exactly what's going to happen now because I've seen umpteen other drama episodes like this".

Of course Marks and Spencer suits the British very well, and M & S drama brings the broadcasters the sort of ratings (15m for *Casualty*, 14m for *London's Burning*, 10m for *House Of Eliott* in the current BARB figures) which they could not normally expect from more individual drama. But as we buy our respectable knickers and watch our dependable series we should perhaps remember the sort of frills we are missing.

Opera/Max Loppert

Die Frau ohne Schatten

Die Frau ohne Schatten can seem a masterpiece, or a grossly overblown piece of music-dramatic manufacture, the last word in (and gasp of) late-Romanticism, with means and ends troublingly out of balance. It was the most ambitious and most time-consuming act of operatic collaboration between Richard Strauss and Hugo von Hofmannsthal. The composer himself, towards the end of his gestation, had begun to entertain serious doubts about its grandiose scale and substance: he was already yearning (in the words of Michael Kennedy's admirable Royal Opera programme note) "to strip off his Wagnerian armour".

The new Covent Garden production realises both the music and the libretto with glowing colour, lightness of touch and texture, a picturesqueness of conception that avoids both triviality and strenuous late-20th-century relevance-seeking. It seems to frame a touchingly simple, heartfelt statement of belief in the opera as a unified masterpiece; and its conviction proves contagious. Indeed, for the first time I derived reward from almost an entire performance, not just particular sections and paragraphs.

For this team of Bernard Haitink (conductor), John Cox (producer) and David Hockney (designer) deserves praise individually and corporately; but it is, as it should be, the conductor who stamps the whole performance with its peculiar radiance of style. The characteristic of Georg Solti's *Frau* - he was the first conductor (in 1967) of the previous Covent Garden production - was its lightning-flash brilliance of sound and thunder-peal ferocity of rhythmic drive, which suited some portions of the score far better than others.

Here, a tender, unforced musicality seems to draw out the genuineness of inspiration in the moments of solemnity and repose, reflecting the candour as well as the richness of Strauss's melodic and harmonic language. The Wagnerian armour is not stripped off, but neither does it prove overburdening heavy. There is Brucknerian innocence in the chorale-elements of the first-act close, Mahlerian clarity of line in the accompaniments to the arias of the Emperor and Empress, and an approach to the darker, wilder sounds and episodes that, though lacking nothing in muscle-power, wholly avoids melodramatic inflation.

Even the carolling sweetnesses of the many-voiced Happy End, usually the sticking point in any account of the opera, flow out with redeeming freshness. This *Frau*, expertly played, finely prepared and balanced (and a good deal less cut than previously in this theatre), is Haitink's first: it counts as one of his most resplendent London achievements.

Hockney, working with the costume designer Ian Falconer (serendipitous *Frau* surname), concentrates on fairy-tale fantasy, on South Sea Isles opulence; exquisite distinctness of line and quirky vividness of detail provide the disciplining force. The

succession of cloths and cutouts rising and falling, with backdrop colours warming to hues of oriental gorgeousness, seems to show creative kinship with the best of Disney, and with such flights of exotic studio fancy as *The Thief of Baghdad*.

The most spirit-lifting episodes are those of the "upper world": on Monday the effect down below was sometimes bold but less exactly judged. The candy-stripe patterns of the dyer's hat look brighter in photograph than on stage - altogether, the lighting, which often gives the Woman a visible Shadow, needs refining. Much of the transformation-magic is disappointing (visible wires, tame floral, unimposing stone-emperor); Act 3 has a surprisingly rumpled look.

Cox's staging works efficiently within these limitations. Apart from the suggestion of intriguing troubled warmth between Barak and his wife early on, he manages relatively little in the way of character-focus, or what the Germans call *Personenregie*: the cast, made up of mainly experienced international Straussians, is not a unified ensemble. One feels that the show as a whole is not yet quite tuned (it is shared with the Los Angeles Music Center Opera, and will doubtless be re-worked there). But already its airy, warming beauties draw the sting of detailed criticism.

Two of the leading quintet reach the grandest Straussian level. In the title role Anna Tomowa-Sintow has only one fault: it is hard to believe this fine figure of a mature and womanly soprano lacks anything at all, least of all a shadow. Her voice, in prime condition, fills out the lines with a natural amplitude that betokens a wonderful directness of stage personality. I love her uncloying tenderness in the little scene with Barak, and the unassuming nobility of her demeanour in the Trial - the climactic spoken outburst, usually cut, is superbly handled. Her partner is the American mezzo, Jane Henschel (*house debut*) as a Nurse of tireless, vibrant delivery, verbal wit, and deftly insinuating character: a wonderful account of a formidable role.

Franz Grundheber's Barak is unfailingly sympathetic, and firmly voiced, though with less than ideal breadth and depth of tone. Paul Frey (*Emperor*) sings with true musicianship - a blessing in any Strauss tenor - but somewhat palely and passionlessly. Of Gwyneth Jones's Dyer's Wife I find it difficult to write justly, especially since she has given such long, honourable service in the role. How does one convey the generosity, the almost heedless abandon with which she throws herself into it? And on the other hand, how does one fairly - and politely - describe the vagaries of her current vocal condition?

In repertory at the Royal Opera House until November 28

Theatre/Malcolm Rutherford

Elegies for Angels, Punks and Raging Queens

An immensely powerful performance is taking place at the King's Head theatre in Islington. Whether every night will be a potent as the first probably depends on the audience. In the end there are 33 characters on stage - a record for this theatre. Sitting and standing to capacity, the audience on Monday could only outnumber the cast by about three to one. And it is on this total proximity, almost identification, between performers and watchers that *Elegies for Angels, Punks and Raging Queens* depends for its force.

Do not be put off by the title. The operative word is elegies. The victims of AIDS (for that is what the piece is about) range widely and include a cute little girl with a pigtail, infected by a parent; what looks like a septuagenarian charlady; and a minister of the church who thinks it was best when they all stayed in the closet as well as the more obvious candidates. All sur, all die. *Elegies* achieves its effect by letting them come on one after another. When they have done their bit, they take their place back-stage as on the Quilt

which commemorates AIDS victims in individual panels which has been publicly shown in Washington DC. The result is like a medieval tableau recording victims of the plague.

Yet it is not gloomy. If there is a criticism of *Elegies*, it is that there is an ambivalence about whether it is celebrating the good times that have been had, despite the consequences, or is a lament that they ever took place. The answer seems to be a bit of both, but that the suffering has brought a lot of unexpected people together. The only scene that is slightly out of place, but may just be meant as a parody, is a chant blaming it all on Presidents Reagan and Bush. Certainly this political complaint is not the central thrust.

Elegies is conducted in rhyming couplets and is, in parts, a musical. Some of the verse is crude: "Now that I have kicked the bucket, All I have to say is f--- it." Much of it is effective: "What is it doctor, is it AIDS? His studied silence spoke in spaces." The songs are uniformly good. "My Brother Lived in San Francisco" may be reminiscent

of a 1960s hit that praised the same city, but the reference must be intentional and captures the change from flower people to sufferers.

The final song, "Learning to Let Go", which means learning to die in peace, is sensational and is encored several times over. The show is very American. The principal influences come from California and New York City: so does the tinge of sentimentality. But it is convincingly played here as if Britain has the same problems of pain and the need for sympathy. That is how the audience took it. *Elegies* is the right word.

The piece is written and directed by Bill Russell and the music is by Janet Hood. It is worth seeing alongside Steven Sondheimer's *Assassins* at the Donmar Warehouse. Both are about dancing with death, yet both have a peculiar vitality. Between them they show new and serious openings for musical theatre.

King's Head Theatre Club, Islington, London N1. (071) 226 1916



The operative word is elegies: scene from Bill Russell and Jane Hood's musical

INTERNATIONAL ARTS GUIDE

BARCELONA

OPERA
Edita Gruberova sings the title role in Anna Bolena at Gran Teatre del Liceu on Sat and next Wed. Richard Bonynge conducts a staging by Giancarlo del Monaco (412 3532)

CONCERTS
Uwe Mund conducts an orchestral concert at the Liceu on Fri at 21.00, with Alessandra Marc soloist in Strauss' Four Last Songs and Ramon Coll in Brahms' First Piano Concerto (412 3532). Alexander Gibson conducts the Barcelona City Orchestra on Fri and Sat evening and Sun morning at Palau de la Musica. The programme includes Strauss' Burlesque and Franck's Symphonic Variations (Josep Colom) and Sibelius' Fifth Symphony. Next Thurs: New London Consort (288 1000)

THEATRE
Alan Ayckbourn's play *Absurd Person Singular* runs from Nov 24 to Jan 24 at Teatreneu. Information and booking for cultural events through Caixa

de Catalunya from 08.00 to 14.00 (310 1212)

COLOGNE

CONCERTS
Tonight's concert at the Philharmonie is given by the Dubliners. Sun morning: Tippet's *A Child of Our Time*. Sun afternoon: Mendelssohn's *Elijah*. Sun evening: Herbie Hancock and friends pay tribute to Miles Davis. Mon: Tokyo String Quartet. Tues: James Galway is soloist with Württemberg Chamber Orchestra. Nov 29: Abbado conducts Berlin Philharmonic (2801)

OPERA
Marco Arturo Marelli's new production of Henze's *Der Prinz von Homburg* can be seen tonight, Sat and next Tues and Fri at the Opernhaus, with a cast including Helga Dernesch and Eirian Davies. Fri and Mon: *Entführung*. Sat, next Wed and Thu: *Der fliegende Holländer* with Monte Pederson and Mechthild Gessendorf (221 8400)

THEATRE
A new production of John Ford's *'Tis Pity She's a Whore*, directed by Michael Bogdanov, has entered the Schauspielhaus repertoire, which also includes Strindberg's *Dance of Death* and Dürrenmatt's *The Visit* (221 8400)

COPENHAGEN

ROYAL THEATRE 19.00 *Der Rosenkavalier*, also Sat. Fri: new production of four Balanchine works. Next Tues: Nielsen's opera *Maskarade*. Next Wed:

Il barbiere di Siviglia. Next Thurs: Carmen. Fleming Flindt's Nutcracker production begins a month's run of performances on Nov 27 (3314 1002)

FRANKFURT

CONCERTS
Tonight's concert of works by Mendelssohn and Suppé at the Alte Oper is given by Katowice Radio Orchestra and Frankfurt Concert Chorus. Tomorrow and Fri: Pinchas Zukerman directs Frankfurt Radio Symphony Orchestra in works by Bach, Schoenberg and Hindemith. Fri in Mozart Saal: Dmitri Hvorostovsky song recital. Sat: Evgeny Svetlanov conducts Russian State Symphony Orchestra in Tchaikovsky's First Piano Concerto (Nikolai Lugansky) and Rakhmaninov's Second Symphony. Sun: Midori violin recital. Mon: Bob Geldof. Next Wed: Herbie Hancock. Next Thurs: Houston Symphony Orchestra. Dec 1: Abbado conducts Berlin Philharmonic (1340 400). Sat at Jahrhunderthalle: Michel Plasson conducts Bamberg Symphony Orchestra in Franck's D minor Symphony and Fauré's Requiem (3601 240)

OPERA/DANCE
Tonight's performance at the Opernhaus is *Die Zauberköln* (also Sun). Tomorrow: *Die Fledermaus*. Fri and Mon: William Forsythe's ballet *The Loss of Small Details*. Sat: La traviata (236001)

THEATRE
Tonight's performance at the

Schauspielhaus is Lorca's *Dona Rosita*. Tomorrow: *The Merchant of Venice*. Next week: Arthur Schnitzler's *Undiscovered Country* (2123 7444).

HAMBURG

MUSIC
Staatsoper Tonight: Don Carlos. Tomorrow and next Tues: Così fan tutte. Fri and Sun: Bob Wilson's production of Parsifal (also Dec 13). Sat: Don Pasquale. Next Wed: Hansel and Gretel (351721)

Musiktheater Tonight: Peter Schneider conducts Hamburg State Philharmonic Orchestra and Singakademie in Brahms' German Requiem (351721)

THEATRE
Deutsches Schauspielhaus Tonight and Sun: Arthur Miller's *Death of a Salesman*. Tomorrow and next Wed: Thomas Bernhard's play *Die Macht der Gewohnheit*. Fri and Tues: Max Gorki's *Vassa Shelesnava*. Sat: Shaw's *Heartbreak House*. Mon: Herbie Hancock and friends pay tribute to Miles Davis (248713)

Thalia Theater Tonight, tomorrow and Sun: King Lear directed by Jürgen Flimm. Sat: Beckett's *Endgame* (322666)

LEIPZIG

Schauspielhaus Tonight's performance by Théâtre Jai of Budapest opens Leipzig's experimental theatre festival. Over the next four days, eleven productions from seven countries will be staged at various venues, culminating in a gala on Sun in

which John Neumeier and Marcia Haydey will dance Béjart's *The Chairs* (792 2182)

Opernhaus Tonight: Johann Strauss' *Eine Nacht in Venedig*. Tomorrow: Il barbiere di Siviglia. Fri and next Wed: choreographies by Uwe Scholz. Sat: Les Contes d'Hoffmann. Sun: first night of new production of Werther with David Rendall in title role. Next Tues: Die Zauberköln (7168 273)

Gewandhaus Sun: Gewandhaus Quartet plays works by Mozart and Brahms. Next Tues: Daniel Barenboim conducts MDR Symphony Orchestra in works by Poulenc, Honegger and Janacek. Nov 26, 27: Leopold Hager conducts Gewandhaus Orchestra. On the next two Saturdays at 15.00, members of Gewandhaus Orchestra take part in performances of Bach cantatas at the Thomaskirche (7132 280)

LYON

● Tomorrow, Fri and Sat in Auditorium Maurice Ravel, Mishioyoshi Inoue conducts Orchestre National de Lyon in works by Rossini and Brahms. Michel Dalberto is soloist tomorrow and Sat in Mozart's Piano Concerto No 24, and Benoit Cambal plays Tchaikovsky's Timpant Concerto on Fri. Next Thurs and Sat: Edith Wiens is soloist in songs by Schubert and Mahler's Fourth Symphony (7860 3713)

● Barbara Hendricks and Gabriel Bacquier star in five performances of L'elisir d'amore, opening Dec 1 at Théâtre du

Huitième, 8 ave Jean Mermoz (7828 0960)

NEW YORK

THEATRE
● My Favourite Year: a new musical based on the film of the same name. In previews (Vivian Beaumont, Lincoln Center, 239 6200)

● Irish Repertory Theatre Company in two one-man shows: Joycelynn, based on the writings of James Joyce, and Frankly, based on the works of Brendan Behan and Frank O'Connor. This week only (Actors' Playhouse, 100 Seventh Ave S, 691 6226)

● Jelly's Last Jam: the music of Jelly Roll Morton, self-proclaimed inventor of jazz, plus an unsparing portrait of Morton himself (Virginia, 245 West 52nd St, 239 6200)

UTRECHT

Vredenburg 20.15 Krystian Zimerman piano recital. Sat: Netherlands Radio Chamber Orchestra plays works by Fauré, Debussy, Roussel and Mozart. Sun: Hans Vonk conducts Radio Philharmonic Orchestra in Bruch's Scottish Fantasy (Christiaan Bor) and Schumann's Third Symphony. Next Tues: Endellion Quartet. Next Wed: Hartmut Haenchen conducts Netherlands Chamber Orchestra and Choir in sacred works by Ponderick and Bach family. Nov 29: Evgeny Svetlanov conducts Russian State Symphony Orchestra (314544)

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0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT East-em Europe Report
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Sky News 2030-2100, 2230-2300 FT Business Weekly

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CNN 0800-0930, 1900-1930 World Business This Week - a joint FT/CNN production

Super Channel 0830-0900 FT Business Weekly

Sky News 1230-1250, 1730-1800 FT Media Europe

SUNDAY
CNN 1030-1100, 1800-1830 World Business This Week

Super Channel 0130-0200 FT Business Weekly

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FINANCIAL TIMES

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Wednesday November 18 1992

Pinning it on the banks

IT IS easy to sympathise with the public in its irritation over the failure of banks and building societies to pass on the full benefit of recent cuts in interest rates. It is less easy to go along with the government's inclination to put pressure on financial institutions to pass on that benefit intact. The excuse for such populism, spelled out in Mr John Major's speech to the Lord Mayor's banquet on Monday, is that it will help promote economic recovery. Yet in practice it is much more likely to do the reverse.

The public's grievance against the clearing banks rests on the suspicion that it is being required to pay for the banks' past errors of judgment. Up to a point the public is right. The decline in banking profitability since the mid-1980s owes a great deal to such aberrations as lending to developing countries, loans to over-extended property companies and ill-judged support for such over-ambitious entrepreneurs as the late Mr Robert Maxwell.

But the banks' aberrations were also a reflection of the government's monetary policy; and the decline in their margins was made worse by the increasingly global nature of the competition in banking and the piecemeal liberalisation of the clearing banks' business. Spreads in both corporate lending and mortgage lending were squeezed. Nor should it be forgotten that the private customer enjoyed great benefit from the growing competition for deposits, where interest on current accounts helped depress bank margins even further.

Wrong priorities

The real problem is that both the government and the banks appear to have their priorities wrong. In the longest recession since the second world war, in which an overhang of debt poses a significant obstacle to recovery, the main objective should be to restore the capital base of the banks and building societies so that they are able to finance an upturn. The building societies have no immediate access to outside capital, while the banks' ability to tap their shareholders for fresh equity is, at the very least, questionable. It follows that the only sure-fire means of bolstering capital is through retained profits.

Time for a purge

THE LATEST revelations of South Africa's commission of inquiry into political violence represent the gravest challenge yet to the integrity of President F W de Klerk and the negotiation process itself. Allegations of government complicity in political violence have never been in short supply; but hard evidence has so far proved scarce.

In the past it has been possible to accept President de Klerk's repeated denials of state involvement in the so-called "third force". This murky group of right-wing extremists is conducting a campaign of assassination and sabotage to weaken the African National Congress and inflame its already tense relations with the rival Inkatha Freedom Party.

Credibility has become increasingly strained, however, as more information surfaces. It ranges from allegations linking a serving senior military officer with the assassination in 1985 of Mr Matthew Goniwe, a leading government opponent, to the discovery in London earlier this year of two members of South African intelligence, apparently set on silencing a whistle-blowing colleague.

Yesterday credibility vanished. Judge Goldstone's latest disclosures do not – so far – involve murder. But they do reveal at the very least a sordid dirty tricks campaign against the ANC. It is not the work of one or two rogue elements in the security services – the excuse which Mr de Klerk continues to offer, despite evidence from the commission of top-level sanctions for the plot. The campaign was the responsibility of what the commission describes as a large operations unit of military intelligence. Among its employees was a former police officer with two convictions for murder, apparently selected on the recommendation of Mr de Klerk's chief of staff for intelligence.

Greater involvement

It remains hard to accept that Mr de Klerk personally sanctioned these tactics. But in the light of the latest information, he must now acknowledge high level involvement. Unless he acts, he will imperil the negotiating process he initiated. As Judge Goldstone made clear on Monday, "no successful and constructive multi-

That message has been grasped by the Federal Reserve in the US, which has made bank profits a more or less explicit target of monetary policy. Yet the Fed's interest rate cuts were arguably too timid to achieve the desired end, as President Bush knows to his cost. The lesson for Britain, which the chancellor has yet to take fully aboard, is that interest rates have to fall further to achieve a given degree of monetary stimulus than would be the case in a normal economic cycle. Nor is the threat to sterling from such cuts as great as feared, since forward interest rates already discount much of the currency risk.

Dividend policy

The banks, meantime, are perpetuating the habits of an earlier decade, most notably in relation to dividend policy. Clearing bank dividends traditionally were covered three times by earnings. Today they are either uncovered or inadequately covered. Yet, to keep institutional shareholders sweet, the banks have been tempted to maintain or increase the payout at the expense of their reserves at a wholly inappropriate juncture.

The time has come for greater realism. The institutions should recognise that their substantial investment in the clearing banks stands to be enhanced, not undermined, by more prudent dividend policies. The banks should recognise that they are sending a damaging signal to the capital markets by leaving so many of those responsible for the disasters of the 1980s in top positions. Barclays, to name the most conspicuous case, has appointed a top executive who was associated with the bank's period of over-expansion to the dual role of chairman and chief executive. In banking, of all businesses, the existence of checks and balances is crucially important and should extend to the structure of top management and the board.

Banks are admittedly not alone in showing reluctance to accept responsibility for past error. Whitehall is, *par excellence*, the place where the buck no longer seems to stop anywhere. But if failure is so conspicuously rewarded, whether in banking or government, who can blame the public for its resentments?

party negotiations are likely to be held in the present climate of mutual suspicion and distrust. No investment will take place until a democratic and peaceful climate has been created.

If Mr de Klerk is to restore his credibility, he should first acknowledge that state involvement in political violence is greater than he realised. He must then give greater powers and more support to the commission, which lacks the resources for its task. The UN secretary general was so persuaded of the centrality of the issue of violence that he recommended to the Security Council in August that the Goldstone commission investigate the army and police, as well as Umkhonto we Sizwe (the ANC's military wing) and other political armies in South Africa. The secretary general urged Pretoria to provide finance for such inquiries, and government agreed in principle that they should take place.

Speedy response

Resources have not been forthcoming. Hundreds of files discovered during the recent raid cannot be investigated for lack of funds. Judge Goldstone also complains that he has not had sufficient co-operation from the parties concerned to do his job properly. The international community can at least assist with resources. British legal experts and police officers have already played an important role in the investigation of Bojola. Judge Goldstone's appeal for further help deserves a speedy response.

Armed with the evidence, Mr de Klerk should initiate a purge of the security forces. No one underestimates the scale of this task. The extent and influence of the right-wing in the services is far from clear. There is no certainty that should it reach the stage of confrontation between reformers and conservatives in the military ranks, the latter will be defeated.

Mr de Klerk's resolve should be stiffened by the realisation that there is no alternative. Unless he purges the rotten elements in the security forces, they will destroy the transition to democracy which he himself launched some three years ago.

For the past two years, the world's coffee producers have been forced to swallow a bitter brew. Plummeting prices and excess supply threaten the livelihood of more than 25m coffee workers from Brazil to Indonesia. The product, once known as green gold, is losing its lustre as the economic mainstay of many developing countries.

An experiment with the free market has left the industry, with total sales estimated at \$34bn a year and a daily consumption of 2bn cups, in its worst crisis for decades. After the collapse in 1989 of the International Coffee Agreement – a pact between producers and consumers controlling exports to ensure price stability – a world glut caused coffee prices to slump to almost a third of the level of the late 1980s. Most growers have been selling at well below cost for the past two years.

The current state of the industry is so serious that growers, exporters, processors and buyers – led by Brazil, the largest producer and the US, the largest consumer and processor – have put aside competing interests to come to the negotiating table. Following a first round in September, crucial talks will begin next Monday at the International Coffee Organisation (ICO) in London to try to conclude a new coffee pact, re-establishing quotas to limit exports and stabilise prices in an admission that the free market has not worked.

Hitting a year price lows in August of less than 50 cents a pound in New York, coffee has been overtaken by sugar as the developing countries' main earner after oil.

Unlike oil, however, coffee supply cannot simply be turned on and off, so growers in the 50 main producing countries have to sell at the lower prices or stop production. Their ability to boost prices through holding back supplies is weakened by the considerable stocks in the hands of consuming nations. The results are abandoned plantations across the developing world and out-of-work coffee pickers, whose anger threatens to spill over into social unrest. In some countries, such as Colombia, the principal alternative crop is the coca leaf, the raw material of cocaine.

The outcome of the talks is keenly awaited, particularly in Brazil, which has been the biggest producer almost continuously since the 1970s when Coppuchin monks in Rio de Janeiro began growing seeds smuggled from French Guyana.

Mr Jose Dias de Gouveia, a 76-year-old farmer in Pocos de Caldas, Brazil's coffee heartland, says: "I've been in coffee all my life but the last four years have been the worst I've ever seen. We're talking survival." Production costs are \$65 a 60-kilo bag, but he is forced to sell at \$40. He has cut staff to a third, reduced land under cultivation from 500 to 400 hectares, and is producing what he calls "ecological coffee", because he cannot afford fertilisers.

In southern Minas Gerais, the world's most productive coffee belt, such stories are common. Growers are abandoning coffee, which has always been a volatile commodity and sensitive to climatic changes, for eucalyptus, nuts and passion fruit. On many farms cattle graze between the remaining coffee bushes. In the past three years the number of coffee bushes in Brazil has fallen from 4.2bn to 3.2bn. Only 20 per cent are thought to be properly cultivated; quality is suffering and thus flavour is deteriorating because coffee prices are too low for growers to invest in fertilisers and technology. The current crop is expected to yield fewer than 20m

Falling prices and a world glut have led coffee producers and consumers to seek a new quota pact, writes Christina Lamb

A storm in a coffee cup

A lot less coffee in Brazil

The top overall consumers

1991	60kg bags (million)	Kg per capita
US	18.88	4.52
Germany	10.48	7.92
Brazil	9.20	3.78
Japan	6.00	2.92
France	5.55	5.84

The top drinkers

1991	Kg per capita a year
Finland	11.51
Sweden	11.13
Norway	10.88
Denmark	10.59

The top exporters

1991/2	60kg bags (million)
Brazil	23.74
Colombia	15.42
Indonesia	4.82
Ivory Coast	3.57
Guatemala	3.29
Mexico	2.98
Cote d'Ivoire	2.27

Source: ICO

bags compared with 43m in 1987-88. Although these figures are significant, the impact of the coffee price slump is even greater on many smaller coffee-producing nations, where coffee is the principal foreign exchange earner. Growers have little alternative but to turn to cocaine production to sustain their families. In Colombia, disenchanted pickers are raw fodder for recruitment into cocaine production cartels.

In Brazil, industrialisation has diminished coffee's contribution to export earnings to less than 4 per cent this year compared with 21.5 per cent 15 years ago and 50 per cent in the early 1980s. However, coffee cultivation remains a labour-intensive business and Mr Christian Ottoni, head of the Pocos de Caldas Rural Union, warns: "The social consequences of the price collapse have been devastating." He estimates that 1.5m to 2m of the 10m workers dependent on Brazil's coffee sector are unemployed and adding to the growing number of slum-dwellers in the cities.

Ironically, it was Brazil that scuppered the coffee accord. It was angered by US attempts to reduce its export quota to allow Colombia and Central America, which produce the milder varieties of coffee favoured by Americans, to increase their exports. The Bush administration was motivated by a determination to provide economic support

for these countries in return for co-operation in the war against drugs.

The Brazilian Exporters Federation (Febrac), which had been convinced that the world's largest producer could only stand to benefit from a free market, has had its hopes shattered as the country has seen coffee income fall from \$2.5bn a year to little more than \$1bn since 1989. Despite the glut on world markets, Brazil is struggling to fulfil its export commitments this year of 13m bags. It is reportedly even importing low-grade coffee to meet the requirements of its home market – now the second-largest in the world at 10m bags. By contrast, Colombia more than doubled its crop since 1989 to 18m bags and has seen earnings increase to match those of Brazil.

Brazil's growers put part of the blame on disgraced President Fernando Collor's policy of deregulation. While Colombian growers have received government subsidies and support in technology and marketing since the pact collapsed, the Brazilian government in 1990 closed its Coffee Institute, which controlled supply and sales. The government's curbs on subsidies for agriculture meant growers had no access to cheap finance, domestic prices were subjected to successive price freezes

and exports were hit by an overvalued cruzeiro. The Brazilian coffee sector was also discredited internationally by charges in New York of insider trading in coffee futures – after the government's sudden suspension of coffee exports in March last year – allegedly linked to the corruption scandal which caused Mr Collor's downfall last month.

But Mr Luiz Sergio de Paiva, from Brazil's National Coffee Council, says most of the blame for the current crisis must be laid at the door of the small group of processors which dominates the market. "It was not a free market at all," he says, pointing at a map on his wall. "All the world's coffee grows between the tropics of Cancer and Capricorn in the third world and thus lacks planning and development. The consumers are all in Europe and the northern hemisphere. Five big first-world companies process half the world's coffee. In a so-called free market it will always be producers that lose and processors that gain."

With many Febrac members facing bankruptcy, the federation has yielded to growers' demands and is backing a new agreement. "We did not expect that being without an accord would be so hard or so long," admits Mr Oswaldo Aranha Neto, Febrac president.

But coffee diplomacy is a delicate business. The International Coffee Organisation includes 50 coffee-ex-

porting nations (representing 97 per cent of world production) and 21 importing countries (responsible for 80 per cent of consumption). Negotiations bring together countries as diverse as Germany, Cuba, Vietnam and Ethiopia, and previous talks have been acrimonious.

The producers might seem to be in the weak position. Mr Alexandre Beltrao, head of the ICO, estimates that producers have been losing \$4bn-\$5bn a year worldwide since the accord collapsed. But the tables may soon turn. The price has started to recover quite rapidly over the past few weeks as Brazil has admitted its crop is lower than expected, and now stands at more than 70 cents a pound. Consumers and processors are beginning to be worried about a possible dearth of supplies, particularly as it takes four years for a bush to start producing beans.

Industrialists worry that the low prices have caused quality to drop even further. Mr Beltrao points out that the income lost by producers "is money which should have been directed towards investment". The price recovery is generating renewed optimism among producers that the sector may be poised for revival, rendering a pact academic. But prices were a 30 cents when the accord collapsed and Mr Beltrao says: "Prices have not risen enough to dissuade anyone of the need for a new accord. I think by the end of the year we'll have a framework agreement."

Negotiations on a pact may, however, be affected by a change of administration in the two main participating countries. The new Brazilian president, Mr Itamar Franco, is from Minas Gerais, which produces half of Brazil's coffee, and is thought to be sympathetic to the idea of an accord. The position of Mr Bill Clinton, US president-elect, is less clear, though Mr Jorge Cardenas, of the Colombian National Growers Federation, says he is not worried that a change in the White House means the US will cool to the idea of a deal.

In September a serious hurdle was overcome with agreement on the concept of universal quotas, covering exports of producers to all destinations rather than just to ICO members, and guaranteeing that exports offered to member countries would be on at least as good terms as to non-members. Under the previous agreement, producers sold surplus supplies to non-members at cheaper prices, which then sold the coffee on to member countries.

The remaining obstacles include a system for controlling shipments, agreeing on prices and quota sizes. The issue of selectivity will also have to be resolved to allow consumers to obtain the types of coffee they prefer, such as robusta or the milder arabica.

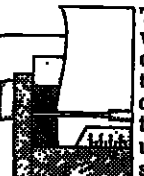
Mr Beltrao stresses that the return to a pact would not mean the sector had lost its taste for the free market. "I don't see a pact as an alternative but as a five-year transition period," he says.

Whether the worst is over for those whose livelihood depends on coffee rests largely on the outcome of this month's negotiations. Although a new pact might push up prices for coffee lovers, the hope is that the ensuing price stability and quality would act like a caffeine shot to stimulate consumption above the 72m bags at which it has stuck. Mr Paiva warns: "We must remember that coffee is not the only drink in the world."

PERSONAL VIEW

Omissions on options

By Michael Cranna and John Samuels



The present controversy concerning directors' remuneration has neglected one aspect of the total package: executive share option schemes (Esops).

effectively, they must be directors' interests to earnings per share (EPS) growth, ensuring the decisions they make are in the best interests of shareholders.

Unfortunately, our research indicates that not all is what it should be in the way some companies operate their schemes, and this is often hidden by the poor levels of disclosure in annual reports.

The four issues we have identified are discounting, voluntary lapsing, pre-emption and the lack of adequate disclosure of information pertaining to share option schemes in company annual reports.

It is possible to discount the price at which directors can buy options by up to a limit of 25 per cent on the market price on the day the option is granted, the argument being that it encourages executives to establish an equity interest in the company. Yet if the object of an Esop is to motivate directors to work towards increasing the EPS of the company, it seems curious to award the director an immediate 15 per cent discount for achieving nothing.

The National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI) have raised the problem of pre-emption. By allowing directors and other employees to buy share options, the percentage of the total issued share capital held by other shareholders falls, and this represents a steady dilution of their holdings.

Then there is the problem of voluntary lapsing. Under most Esops, directors are permitted to lapse vol-

untarily any grant of options they have been allocated. Assuming the directors have not used their full allocation of options, the implication is that, if they manage the company poorly and the share price falls, they can lapse their options and be reallocated another tranche up to the balance of their allocation at a lower exercise price.

If exercised at the right time, this would render relatively greater profits, and invalidate any notion of incentive-based performance tied to a steadily growing EPS. The directors should be able to show that profits are derived from a healthier company than when the options were initially granted, not from a randomly fluctuating share price.

There have also been calls for more appropriate explication in the annual reports. In the majority of annual reports, share option prices and the number of share options held by directors are given in different tables, making it impossible to calculate who owns what and how much they are making. Furthermore, options are not counted as a cost to the company. Studies in the US have shown that the cost of Esops if charged against profits would reduce them by an average of 3 per cent and sometimes by up to 10 per cent. Indeed, the US Securities and Exchange Commission has tightened regulations pertaining to disclosure requirements for Esops.

However, issues of executive remuneration have little impact on the making of investment decisions, and this has been reflected in the lack of emphasis that the NAPF and the ABI have placed until recently on these kinds of issues. These organisations increasingly recognise the need to improve ways of measuring executive performance, and have now set out detailed guidelines concerning Esops which go some way in addressing the

issues of discounting, pre-emption and lapsing. They have also recognised that EPS as a measure of company performance is vulnerable to manipulation and other measures should be incorporated.

However, the information on executive remuneration rarely trickles down to the shareholders who ultimately should be the monitors of companies' remuneration packages. Moreover, they are often unconcerned or ignorant of corporate governance issues, and rarely use their proxy votes anyway. This demonstrates the need for the ABI and NAPF guidelines to be dovetailed with any conclusions the Cadbury Committee on corporate governance might reach when it publishes the conclusions next month. Any overall policy should be rigorously implemented by the institutional investors, specifically at the fund manager level.

Otherwise there will be a danger that directors will be perceived as discerning no limits on their remuneration. This perception may be exacerbated because of the unsatisfactory levels of disclosure in annual reports. The Institute of Directors takes the view that the scale of risk that directors carry is such that any compensation is insignificant compared with the scale of economic activity. But can this view be used to justify curtailing the incentive element of an incentive-based remuneration package, or as a recent study* shows, increasing executive remuneration against collapsing profits?

This article is based on work done by the Entrepreneurship Group of the Centre for Economic Performance at the London School of Economics. *The Disappearing Relationship Between Directors' Pay and Corporate Performance, Centre for Economic Performance.

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SINGAPORE AIRLINES

Edward Mortimer

Wake up, Europe

The EC is once again famous for its internal divisions and its failure to develop coherent international policies



FOREIGN AFFAIRS

Three or four years ago it was great to be European. People from other continents treated you with respect, interest, even envy.

Americans and Japanese asked earnestly about "1992", meaning the completion of the single market. One could reassure them, with just a whiff of *noblesse oblige*, that their fears of "fortress Europe" were largely groundless, while privately hugging oneself with pride at the thought that they actually cared. And then there was all the excitement about change in the east. The collapse of east European communism was widely attributed to the contrast between its conspicuous economic failure and western Europe's success. East Europeans were eager to join or re-join the "Europe" to which they felt they belonged — the one represented and symbolised by the European Community. Bliss was it in that dawn to be alive, but to be European was very heaven.

Alas and alack. The picture is different now. It has become quite embarrassing to be European at a gathering such as the one I attended last week, the biennial "Atlantic Conference" organised by the Chicago Council on Foreign Relations, bringing together Europeans and North and South Americans. Believe it or not, this is 1992 and the single market is about to be completed. But that no longer seems to count for much. The EC is once again famous mainly for its internal divisions and its consequent inability to do anything constructive in relations with the rest of the world.

German unification, mismanaged economically for lack of political courage, has imposed deflation on the whole of Europe at a time of recession. The European Monetary System, from which realignments had been effectively phased out as a step towards a single currency, has contributed to rigidity at a moment when flexibility is needed and two currencies have fallen out of it. The Maastricht treaty, intended to transform the EC into an economic and political union, has instead led to acrimony both between member states and within them.

Differences among member states and within the European Commission are generally held responsible for failure to conclude the Uruguay Round trade talks, and for the possibility of a trade war between the EC and the US.

Worst of all, western Europe has failed conspicuously to respond to the challenge of



No cause to celebrate: western Europe has failed to respond adequately to events in the east

events in the east. I was invited to the conference to present a paper on the theme "Western Europe looks east: what role in central and eastern Europe?" What could I say? I presented once again my argument for a strategy aimed at extending the EC gradually eastwards by opening it up to all those states which can realistically aspire to associate with western Europe rather than with Russia, and at developing friendly relations between this whole area and the zone to the east of it within the framework of a pan-European security structure, based on Nato and the Conference on Security and Co-operation in Europe (CSCE). In other words,

The Community's capacity to develop any strategy for eastern European recovery seems to have collapsed

an "ever closer union" of Europe from Dublin to Ljubljana, within a broader security zone from Vancouver to Vladivostok; in economic terms, an integrated single market within a European free trade area.

I ran through my programme of economic, military, institutional and political measures aimed at realising this ambitious scheme, and found that they went down better than I expected — especially the idea that the various things being done for eastern Europe should be brought together in a multi-lateral, Marshall Plan-style "joint recovery programme", which would give recipient states an incentive to overcome their differences, and so give private investors greater confidence in the economic and political environment.

Some constructive modifications were suggested. It is vital, I was told, not to appear

to treat Ukraine as "a Russian problem", because a Russo-Ukrainian conflict could be the most dangerous for the rest of Europe. Even within the narrower Europe a distinction needs to be made between economic issues, where the EC has to take the lead, and military ones, where a US role, through NATO, continues to be vital. And a distinction needs to be made between north-central Europe and the Balkans. The former is already the scene of promising economic and political developments and has hope of qualifying for EC membership around the end of the century. In the latter the only immediate issue is halting and preventing war.

Unfortunately all this is based on a false premise. Western Europe is not "looking east". Not only has the EC not developed a strategy along the lines suggested, but its capacity to develop any strategy at all seems to have collapsed. Instead of finding ways to embrace and stabilise the countries suddenly released from communism, it has watched impotently while bitter ethnic and national conflicts resurface and degenerate into spreading violence. Here, too, the EC's internal divisions have caused paralysis and have been exacerbated as member states blame each other for the disasters in former Yugoslavia. Meanwhile, the influx of refugees exacerbates social tensions and stimulates the rise of xenophobic extremism at home.

No European leader has set out clearly for his electorate the nature of the opportunities

and dangers which events in the east have produced for western Europe. As a result, it seems that none now has the authority to demand the sacrifices required from domestic vested interests, notably the farming and other producer lobbies, which oppose the opening of the west European market to the most competitive east European products: coal, steel, textiles and food.

To outsiders, western Europe presents a remarkably unattractive spectacle as 1992, supposedly its year of glory, draws to a close. We look like selfish children squabbling among ourselves, ignoring the problems of neighbours who, for the most part, are much worse off than us. At last week's conference, one US speaker condemned the "appalling lack of leadership and will" which Europe has shown in response to the Yugoslav crisis, while a South American referred to "a degree of autism", an insistence on repeating the same answers to radically new and different questions.

It looks increasingly likely that Maastricht, even if the right answer, is the answer to the wrong question. At the core of the treaty is monetary union, based on a plan drawn up before the events of 1989-91 transformed the whole geopolitical context, and of dubious relevance to the new and urgent problems in the east. Tacked on to it is the idea of a common foreign and security policy, which is indeed what the EC needs but which the treaty as signed would hardly make any easier to produce. But having got this far it would certainly be better to ratify the treaty and move on to more important business. As it is, the EC looks all too likely to spend another year discussing the decision-making process when what is needed is some actual decisions.

LETTERS TO THE EDITOR

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Fooled by own mirage of debt

From Mr John C O'Connor.

Sir, James Morgan suggests a magic debt mountain arose in east Germany (Finance and the Family, October 31) from a "predisposition to believe" gilded official data, which "started when the World Bank misguidedly attempted to create comparable national income figures for every country in the world". The bank was in the crowd that wrongly accepted what central planners said in the 1970s. But we broke away a decade ago to search for solutions — along a trail marked by a 1985 book, *Dollar GNP's of the USSR and Eastern Europe*, and this year's *Historically Planned Economies (HPEs): A Guide to the Data*.

I think Mr Morgan wrongly blames "assumptions about production and purchasing power" and presumes that "realising the absurdity... the bank never indulged in the same exercise again". The bank's concerns were more specific, mainly about data quality; and are being answered as HPEs join the bank and provide more detail, including purchasing power parities in the UN's International Comparisons Programme (ICP), etc. The alternative technique, relying on official exchange rates, looks more absurd at present for the former Soviet Union and some other HPEs undergoing radical changes in exchange regimes.

There is a strong case for a tempered use of ICP-type information in this context. Returning to Mr Morgan's main theme, the mountain seems a conjurer's mirage once it is described as internal rather than foreign debt. As holder as well as issuer of such debt, the East German government seems only to have fooled itself. It is hard to see much more there for bank data, particularly when we corrected our mistake so long ago.

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Washington DC 20433

Wage bargaining should ignore devaluation-induced inflation

From Prof Ronald Dore.

Sir, The prime minister's speech at Guildhall this week strongly supports the view that the government, if only by jaw-boning, has a role to play in holding down wage increases in the private as well as in the public sector. One useful contribution would be to seek to diffuse among all engaged on either side of the bargaining table an idea which has been commonplace in countries such as Sweden for a decade, but has little currency in British discussions.

It is this: RPI-plus is a perfectly reasonable starting point for wage bargaining in an

economy with cost-plus-mark-up pricing. But there is inflation and inflation. The increase in the cost of imports brought by devaluation is something which makes the nation poorer. The fairest way of sharing that loss around is not to compensate in wage packets for that part of current inflation which can be ascribed to higher (sterling) import prices, and to confine compensation to the other part produced by the "spiral of justice" of ratcheting wages and prices. To make the distinction is not only fair; it also prevents devaluation giving a kick-start to inflation acceleration which

will eventually require a more swingeing deflation to halt.

Of course the dread words "incomes policy" cannot be mentioned. NEDO is no more. We have no national forum as the Swedes have where principles such as this could be hammered out and exert some effect, however marginal, on fragmented bargaining outcomes. But might not a chancellor capable of nationalising 20,000 houses be bold enough to think of some modest initiative towards creating one?

Ronald Dore,
Houghton Street,
London WC2A 2AE

Wider case for industry

From Mr Mark Radcliffe.

Sir, It is encouraging that Mr Jackson's article ("The incredible shrinking industrial base", November 16) reaches the conclusion, albeit reluctantly, that we have to reverse the decline in UK manufacturing. However, I would like to push the case harder and remove his depression and reluctance.

If General Motors doesn't sell cars and consumers don't buy imports from Asia/Pacific manufacturers, Blue Cross-Blue Shield as health insurers will end up without the business and the jobs. Furthermore, we believe that up to about one-third of the jobs lost in UK manufacturing over the past decade represent sub-contracting of specialist services to specialist firms in everything from security to catering, and that for every job in manufacturing there is one in the service industries.

This is why we believe the CBI National Manufacturing Council initiative is vital to the whole of the UK and why manufacturing must win a larger share of today's highly competitive international markets. Mark Radcliffe,
deputy director-general,
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103 New Oxford Street,
London WC1A 1DU

Arms to Iraq: the complex objectives and high cost

From Mr David Savers.

Sir, One moral of the Matrix Churchill affair is liable to be lost among the excitement about "cover-ups": if government departments believe they have a simple objective, such as increasing British exports, they are liable to behave foolishly. Mr Alan Clark appears to be doing little more than express a departmental view when he says his job as minister of trade was "to maximise exports despite guidelines which I regarded as tiresome and intrusive".

Prime ministers should ensure that ministers understand that the national interest, and therefore government policy, represents a balance between conflicting objectives and interests; and officials should understand this fact.

Simple objectives such as increasing UK exports are only appropriate as low-level objectives for low-level staff. Other considerations should be fed into the decision process before issues reach ministers; if they are not, the ministers should demand that they are.

Matrix Churchill represents a failure of leadership. Junior ministers and officials were allowed to work on the oversimple objective of maximising British exports because no superior told them otherwise;

and the injection of other considerations usually came from junior foreign office ministers. The Foreign Office sometimes won the subsequent debates, where weapons were involved; but the guidance from above seems to have been that exports were always good. The prime minister and his cabinet should realise that they can only avoid repetition of such embarrassments if they work to more complex and adult objectives and ensure their officials do so too.

David Savers,
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Ammering-on-Sea,
Littlehampton, W Sussex

From Mr Colin Grant-Wilson.
Sir, Surely the real irony of the so-called Iraqi arms scandal has yet to be aired. Britain almost certainly did not sell the arms but in effect gave them to the Iraqis. The exports will almost certainly have Export Credits Guarantee Department cover which will be called upon and, as there is virtually no prospect of Iraq repaying all its international creditors, the arms were thus a gift. Hopefully I will be contradicted?

Colin Grant-Wilson,
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OBSERVER

PM in bank note scandal

■ Paul Keating is the first Australian prime minister for years who can safely be cleared of debasing the currency — inflation has fallen, to less than 0.8 per cent since he took over from Bob Hawke just under a year ago.

But defacing it is a different matter, and the federal police think they may be able to finger him on that score. The alleged crime was perpetrated during a walkabout in Ningbo, a town in Zhejiang province, when Keating unwisely signed two A\$5 notes at the request of a local artist. Now the artist is selling the notes for A\$3,000 each, and the premier is being investigated under the Crimes (Currency) Act, which provides for imprisonment of up to two years.

If the case ever got to court, it could even cost the prime minister his job. Justice minister Michael Tate has promised that the case would be dealt with impartially.

Keating plays down the incident as summer nonsense. But there is some evidence that it was as much a political statement as a vote-catching exercise. The notes he signed were examples of the freshly issued A\$5 note carrying the Queen's portrait in place of the 19th century pioneer pictured on the earlier design. Keating was one of many republican Australians who unsuccessfully tried to persuade the Reserve Bank to cancel the issue.

Safe as houses

■ The man from the Halifax has come up trumps. Congratulations to Gary Styles, senior economist at Britain's biggest building

society, for winning Observer's "forecasting the forecast" competition.

Styles was the only entrant correctly to predict the Treasury's forecast of the two most important economic indicators: GDP growth for 1993 at 1 per cent and RPI at 3.25 per cent. He was not far off in predicting the current account deficit forecast at £13bn (actual forecast £15.5bn) — especially considering some Treasury watchers had the figure at £8.5bn. On consumer spending, Styles' 0.5 per cent Treasury guess 1.25 per cent.

Nor were we concerned that Styles predicted a 1 per cent contraction in fixed investment (answers up to plus 5.2 per cent but correct number 0.25 per cent) and a slightly too topsy manufacturing output increase of 1.75 per cent (Treasury on 1 per cent).

"I've got to get something right this year," chuckled Styles — whose own forecasts are 1.25 per cent for GDP and 4.5 per cent for RPI — on being told that he had won. The bad news is that he thinks the mortgage rate will be unchanged — at about 8.5 per cent — a year from now.

Graphic example

■ Only yesterday the FT was reporting how many companies illustrate their annual reports with graphs which flatter their performance.

Take Scottish Metropolitan Property, which was singled out because of the generous use of its little logo to symbolise its profit growth. However, Vivian Beattie of Southampton University and Michael Jones of the University of Wales concluded that there were limits to this sleight of hand — companies with declining performance tend to dispense with graphs. Now right they were.



Scottish Metropolitan Property's latest accounts landed on Observer's desk yesterday showing a loss — and not a single graph.

Swiss society

■ For months, *le tout Genève* has been after over the succession at Société Générale de Surveillance, the city's premier industrial company. Some speculated that the chairman, the formidable Elisabeth Salina Amorini, would herself take the chief executive's chair, soon to be vacated by a retiring Claude Goldberg. Others feared she might bring in one of her British friends from her days at Warburgs in London. Such speculation has proved inaccurate. Salina has found someone who is not British and not herself to run the group, which provides inspection services and quality control tests for governments and companies around the world. Nevertheless, her choice, Thierry Chéreau, a Frenchman, at first sight looks a bit odd. Chéreau comes from

Source Perrier, which had a rather large quality control problem of its own a couple of years ago.

But it turns out that he was part of the solution to that problem rather than its cause, having joined Perrier as chairman only a year ago. But he suddenly found himself redundant after the Swiss food group, Nestlé, took over Perrier last summer. Now he will get to know the Swiss after all.

Up and over

■ One clue to the recent decision by British insurers to exclude terrorism as a risk covered by commercial insurance policies is the sheer enormity of the loss arising from last April's Commercial Union bomb in London. Hard to believe, but the Association of British Insurers now estimates the CU-related losses at £750m, a figure which exceeds the sum paid out for all terrorist damage in Northern Ireland since the troubles started.

Since the late 1960s the government has paid out around £920m to compensate property owners for damage. Losses peaked in 1976-77, when the payout amounted to £50m. After falling steadily to £15m in 1986-87, the bill last year amounted to £33m.

Sic and tired

■ Having wounded the English language with the syntactical nonsense of a "Drug Prevention Week", the government yesterday allowed defence procurement minister Jonathan Aitken to deliver another blow. Announcing that outsiders would be allowed to bid to supply certain services, he said: "We have already contracted 100 individual functions."

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Police reports show the effects of a vindictive campaign in Croatia Prosaic face of ethnic cleansing

By David White in Split, Croatia

BY THE STANDARDS of mindless barbarity that have been set in the former Yugoslav republics over the last year and a half, the recent incidents recorded in the south of the Krajina region might seem almost petty.

But, laid down in prosaic police reports, they provide graphic evidence of how a vindictive campaign of "ethnic cleansing" can be pursued under the noses of international forces in a United Nations Protected Area.

A Croatian woman born 1929

came to the field in front of her

house and shot her cow. They

loaded the cow on a trailer and

went away," says a recent report

by UN civilian police (Uncivpol)

said to monitor local police work

in this Serb-controlled area of

Croatia.

Another incident in the same

village, Maovice, involved a 75-

year-old Croatian woman. "Five

armed men came to her house

stole two wheelbarrows, two



well-clocks, washing powder and soap.

All the reports conclude by saying that the local *milicia*, which serves as a police force, had been informed and the case was being followed up. But the UN is almost powerless.

The same Uncivpol station described a robbery in the Vinic area. "Six men, two in civilian clothes and four in local *milicia* uniform, came to a Croatian

woman's house and threatened her with rifles.

They stole one colour TV and shot her dog. The six people came from the village of Cetina. Before they left they told her to leave the village, otherwise she would be killed. Local *milicia* informed."

In the village of Jezevici-Corici, "five men entered four houses owned by old Croatian people. They stole 700kg of wheat, 10kg salt, a washing machine, coffee, candles, eight hams and a table."

The reports are from Sector South - one of the four UN Protected Areas set up earlier this year after the ceasefire in Croatia - and from the adjacent "pink zone". This is additional territory the Yugoslav army had taken by the time the UNFA were properly established.

The UN plan is to restore this "pink zone" step-by-step to Croatian authority. But no progress has been made towards this goal. Nor has the UN succeeded in its aim of "demilitarising" and disarming the protected area, where it has 3,500 troops.

Sector South forms part of the self-proclaimed "Republic of Serbian Krajina", and UN officials describe their mission there as "quite frustrating". Although neglected and economically backward, Krajina is strategically crucial since it virtually separates Croatia's southern Dalmatian region from the rest of the country. All main road and rail links pass through it.

Tension is particularly high at Drnis, in the "pink zone" to the south of the region. Up to last year, Croats made up a large majority. But, according to UN officials, most have gone and Serb refugees from other areas have been moving into the empty houses.

A typical case reported by the Uncivpol's Drnis station reads: "On October 29 an old Serbian woman, aged 78, was threatened at night by four men in civilian clothes to leave her house in Badanj. She thinks that because she was married to a Croat, they may believe she is also a Croat. Local police informed. To be followed up."

Clinton to meet Bush in Washington

By Nancy Durne in Washington

MR BILL CLINTON and his new home town get their first post-election chance to evaluate each other today when he flies to Washington for a meeting with President George Bush and a series of sessions with congressmen of both parties.

The president-elect will take a good look around. His itinerary allows less time at the White House with Mr Bush - 55 minutes - than it schedules for a "street walk" visiting businesses near Washington's mostly black Howard University.

This is unlikely to be meant as

a snub to the sitting president, who has promised to make the transition to a Democratic administration as efficient and painless as possible.

Instead, it is probably because the Arkansas governor's schedulers have learnt to build extreme flexibility into a Clinton calendar. During the election campaign, he earned a well-deserved reputation for tardiness caused by shaking every hand proffered and holding long off-the-cuff conversations.

The governor will use the second day of his two-day visit to begin wooing Republicans and to cement relationships with Demo-

crats in Congress. After two years of stalemate in Washington between a Republican president and a Democratic Congress, there is a palpable yearning for the promised thaw in the domestic "cold war", which began when Mr Clinton met Democratic leaders on Sunday.

Mr Clinton and his wife Hillary are also creating a stir on the Washington social scene, where they are determined to prove they are not like the more stand-offish Carters, the last Democrats in the White House.

The Clintons are to attend at least two private dinners - to which invitations are much

prized and supposed to be kept secret - and a reception.

Tonight's dinner is being given by Mr Vernon Jordan, chairman of the governor's transition team and tomorrow night's hostess is Mrs Pamela Harriman, a Democratic party activist and widow of Mr Averell Harriman, the US diplomat and politician.

The Clintons rejected an invitation by Mr Bush to stay overnight at Blair House, the official guest residence, on the grounds that it would be too expensive to open for the occasion. Instead, they are staying at the Hay-Adams Hotel, where suites cost a more frugal \$1,200 a night.

Britain backs HK proposals

Continued from Page 1

team to China for a week-long visit next month. Mr Major welcomed Beijing's decision to receive the delegation.

Relations are likely to face a further test later this week when the Hong Kong government asks the Legislative Council for approval to fund a HK\$9bn (\$1.2bn) contract to build the site of the colony's new airport.

China's refusal to agree to financing plans for the airport threatens to delay the project, which is seen in Hong Kong as vital to business confidence. Mr Patten's policy is to proceed with as much of the airport as can be completed without China's agreement.

The site contract, awarded earlier this year, has been extended once and expires at the end of this month. Members expect the council to approve the request for financing approval to be submitted on Friday.

European Court supports Brussels over monopolies

By Lionel Barber in Brussels

THE EUROPEAN Court of Justice yesterday reaffirmed support for the European Commission's powers to intervene directly to prevent monopolies from acting against the wider Community interest.

In a case involving liberalisation of the telecommunications services market, the court rejected complaints by Belgium, France, Italy and Spain that the Commission had abused its powers under Article 90 of the Treaty of Rome.

This is the so-called "nuclear option" which gives Brussels wide-ranging powers to override national opposition to the breakup of monopolies.

The four countries brought the case in response to a Commission directive which freed the rapidly growing market in telephone ser-

vices such as fax machines and data transfer. Telex services and mobile phones were not covered.

They argued that Article 90 only gives the Commission the right to oversee existing rules under the Treaty of Rome, not to take an active role to break monopolies.

In effect, their aim was to ensure that the Commission could intervene only under the authority of the Council of Ministers, and to send a warning shot to Sir Leon Brittan, the UK commissioner in charge of competition policy, should he press ahead too fast on liberalising the far bigger voice telecommunications market, an EC official said.

Sir Leon welcomed the court's judgment. But EC officials said it was unlikely Sir Leon would press ahead with Article 90 in sensitive areas such as voice telecommunications or energy, given

the level of anti-Brussels sentiment in national capitals.

The court, however, criticised the Commission on technical grounds. It said Article 90 could not be used to end long-term contracts or "special rights" in telecommunications, the term covering use of the phone network by companies such as Reuters and Swift, the international bank transfer organisation.

The court thus annulled the two clauses which referred to these in the June 1990 directive. In several recent cases such as that covering energy, the Commission has deferred to the Council on political grounds. But the result has been considerable delay.

An EC official said the Commission was anxious to uphold the principle of Article 90, rather than the substance of the case which was uncontroversial.

Time ripe for deal on Gatt, says Dunkel

Continued from Page 1

dency," he said. Several ministers, as well as the Commission, said that the statistics produced by France - to demonstrate that Mr MacSharry was going beyond his remit - had won no support.

However, most member states agreed that a Gatt deal would have to be compatible with the new CAP.

Mr MacSharry insisted this would be the case. "I have the most up-to-date statistics available to the Community," he said. "We are working within the impact of the CAP," he added, "and I'm blue in the face with saying it. Maybe people should start believing the facts."

While US officials believe Mr MacSharry may be able to resume talks after two weeks of EC upheaval without fear of being undermined either by Mr Jacques Delors, the EC president, or by other farm ministers, they are far from confident that bottom-line positions can be reconciled.

US negotiators insisted they had had no contact with EC counterparts since the collapse of

talks in Chicago, and had no knowledge of whether the EC was bringing any proposals that would enable a settlement.

In Washington, meanwhile, a report in the Journal of Commerce said that the US and the EC had agreed to leave trade in audio-visual products, such as film rights and television programmes, out of any eventual Uruguay Round settlement.

The newspaper also predicted that the issue of maritime services - a critical ingredient in any proposals to reform trade in services - was also likely to be left out. US shippers have fought fiercely against opening coastal shipping to international competition.

Mr Dunkel picked up these claims as striking evidence of how the long-standing US-EC deadlock on reform of farm trade had led many to commit the error of thinking the Uruguay Round involves two rather than 108 countries.

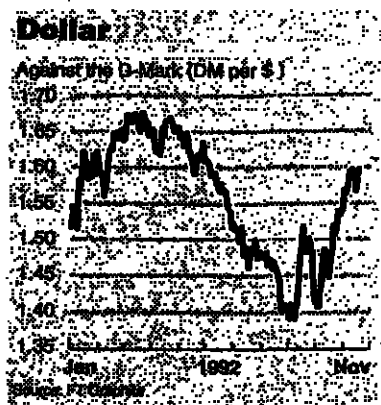
He said it also illustrated how many difficult trade reforms remain to be debated even if the US and the EC settle their farm trade row.



Ray MacSharry: blue in the face with explaining

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Yesterday's disappointing dip in British Airways' second quarter profits amply demonstrates the volatility of airline earnings. Though this inevitably carries a price in BA's rating, the 20 per cent fall in the shares over the last 10 days looks a little overdone. Next year's prospective multiple on the basis of one City forecast, after all, is 45 per cent below the stock market average.

There is bad news, to be sure, in the latest evidence of falling passenger yields. It will take more than the prospect of a modest economic upturn before the average finance director sanctions first-class travel all round. So far, at least, BA detects no rush of eager British exporters in search of overseas business.

Even so, investors may be putting

undue emphasis on the latest num-

bers. News that currency adjustments

will continue to be a malign influence

on profits in the current quarter is

certainly unsettling, if explicable in

terms of the lag effect of advance

sales. But this will cancel itself out in

the final three months, and boost both

yields and earnings next year.

Given BA's reasonably aggressive

cash sheet and global ambition, the

closer the company gets to its target

cash flow of 21 per cent of revenues,

the better. This is all the more so since

BA has big capacity increases planned

for next summer and would be better

able to keep up the cost-cutting

momentum. While a rights issue is

probably inevitable at some stage, the

USAA and Dan-Air deals are manage-

able without it.

National Power

The electricity market may be showing the signs of recession - with sales falling for the first time in a decade - but National Power continues to prosper. The key is aggressive cost control, and while the management has reaped the easiest part of manpower reductions, further savings will come from more flexible working practices. Although National Power will lose market share in coming years, its costs will fall even more rapidly than revenues as its least efficient plant is retired.

That healthy outlook is marred by the uncertainty surrounding the coal industry, but at least the outline of a compromise is visible. The original proposal was for the generators to buy 40m tonnes of British coal. If this were augmented by contracts to buy an additional 15m tonnes next year,

Currencies

The currency markets appear to have lost patience with the Bundesbank's tough posture on interest rates. Yesterday's signal that rates will not be cut was immediately followed by concern for the industrial outlook. Having already cleaned up at the expense of sterling, foreign exchange traders are unlikely to risk their annual bonuses by aggressively gunning for the D-Mark before Christmas. But as the recent spate of issues in the Euromarket illustrate, investors have already started to vote with their feet.

The French franc and Danish krona have already benefited from a weaker D-Mark and are out of the danger zone within the ERM. More remarkably, Italy's aspiration to rejoin the system by the year-end looks like more than wishful thinking. Having allowed the Italian currency to trade in a tight

range against the D-Mark for the past three weeks, the market is already discounting such a move. Judging by the 5 percentage point difference between German and Italian short-term interest rates, though, the market will demand a hefty premium for holding lire even at a lower central rate.

For this reason alone the UK government may feel vindicated in its decision to float sterling. But a softer D-Mark may not offer more room for manoeuvre. Sterling has so far notably failed to catch the coat tails of a rising dollar. Yesterday's PSBR figures are a reminder of the scale of the deficit which has to be financed next year. Sterling may have to fall further before overseas investors are tempted to buy gilts.

Sedgwick

The sighs of relief after sterling's depreciation must have been deafening in Sedgwick's boardroom. Only a few weeks before Black Wednesday, the directors somewhat sheepishly had to admit that they had virtually no forward cover for 1993 dollar income. As investors have since appreciated by marking the shares up 15 per cent more than the market, there is some difference between a \$2 pound and a \$1.51 pound.

Financial coup or big slice of luck? Shareholders will no doubt give the company the benefit of the doubt, but Sedgwick will reflect that it is in the business of insurance broking, not currency speculation. It would be a surprise if such a position arises again.

Amstrad

Irrespective of whether Mr Alan Sugar is offering a fair price for Amstrad, shareholders have a right to expect better treatment. His offer document contains only a gloomy paragraph on the trading outlook, no profits forecast, no comment on the last four months' performance and no detail of Mr Sugar's plans for the company once it is in private hands. Mr Sugar maintains that no detailed plans exist. But one can hardly imagine Lloyds Bank is stumping up \$43m on the basis of sketchy assurances.

In the absence of either non-executive directors or an independent financial adviser to comment on the terms, the level of disclosure is inadequate. Mr Sugar cannot expect shareholders to be happy with his offer while he gives so little away.



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		Boulogne	S	8	46	Frankfurt	C	7	45	Malacca	C	10	50	Oporto	Dr	15	59	Toronto	C	21	70	
		Brussels	C	6	43	Geneva	R	8	41	Malaga	F	17	63	Paris	C	9	32	Tokyo	C	14	57	
		Budapest	C	11	52	Glasgow	C	11	52	Melbourne	C	25	77	Perth	C	8	46	Toronto	T	Sn	0	32
		Buenos Aires	F	22	72	Glasgow	F	17	63	Melbo	S	25	77	Perth	C	8	46	Toronto	T	Sn	0	32
		Cairo	S	28	79	Helsinki	Sn	-2	27	Montreal	S	23	73	Prague	F	10	50	Valencia	C	18	64	
		Calcutta	S	28	79	Hong Kong	S	25	77	Mexico City	C	20	68	Phoenix	S	-2	28	Valencia	C	18	64	
		Canton	S	28	79	Hong Kong	S	25	77	Mexico City	C	20	68	Phoenix	S	-2	28	Valencia	C	18	64	
		Casablanca	T	17	63	Inverness	S	4	39	Osaka	C	10	50	Rio de Janeiro	C	23	73	Warsaw	F	0	32	
		Chennai	S	24	75	Isle of Man	C	10	50	Osaka	C	10	50	Rio de Janeiro	C	23	73	Warsaw	F	0	32	
		Chongqing	S	18	64	Isle of Man	C	10	50	Osaka	C	10	50	Rio de Janeiro	C	23	73	Washington	T	C	23	36
		Cologne	T	13	55	Isle of Man	C	10	50	Osaka	C	10	50	Rio de Janeiro	C	23	73	Washington	T	C	23	36
		Copenhagen	F	7	45	Jakarta	S	31	88	Osaka	C	10	50	Rio de Janeiro	C	23	73	Washington	T	C	23	36
		Cork	F	16	64	Johnsborough	F	23	73	Osaka	C	10	50	Rio de Janeiro	C	23	73	Washington	T	C	23	36
		Dallas	T	13	55	London	C	17	63	Osaka	C	10	50	Rio de Janeiro	C	23	73	Washington	T	C	23	36
		Dublin	S	10	50	Los Angeles	S	14	57	Osaka	C	10	50	Rio de Janeiro	C	23	73	Washington	T	C	23	36
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		Edinburgh	S	10	50	Madrid	F	15	59	New York	T	4	39	Tel Aviv	F	23	73	Washington	T	C	23	36
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TURKISH FINANCE, INVESTMENT AND INDUSTRY

SECTION III

Wednesday November 18 1992



Hubs of business: The headquarters of Türkiye İş Bankası, in Ankara (left); the trading floor of the Istanbul Stock Exchange (centre); and the headquarters of Şekerbank, in Ankara

Pictures by John Murray Brown and Terry Kirk

In search of a new identity

The country is still on track for a customs union with Brussels, says John Murray Brown, but political vacillation has served to undermine the case for economic convergence with the EC

RARELY CAN Turkey have had such an opportunity to shape the future of its region. In a wide arc, stretching from the Balkans through the new republics of central Asia even to its Arab neighbours to the south, Turkey is quietly asserting a growing influence.

These, of course, are turbulent times. A country which suffered a bout of painful soul-searching when the president suggested sending troops to the Gulf war, is today offering conscripts to sort out the horrors of Bosnia Hercegovina; is despatching military experts to advise its allies in the Caucasus; and has deployed up to 20,000 commandos to fight Kurdish separatists in North Iraq. In what most Turks are describing as the largest operation since the invasion of Cyprus in 1974.

If Turkey appears ready to assume new responsibilities towards the emerging states of central Asia and the Black Sea, it is a policy shaped more by necessity than choice. Few of the Soviet Union's neighbours can have welcomed its collapse with quite such mixed feelings. The strategic imperatives which once underpinned its role in Western defence, are now changing with alarming speed. In its place the country faces uncertainty and confusion wherever it turns.

When he arrives in London for a working visit next week, the prime minister, Mr Süleyman Demirel, will again make the case for Turkey's special relationship with Europe - an

idea promoted by Mr Douglas Hurd, the UK foreign secretary but rudely overtaken by European issues of more urgent concern.

Early this month, Turkey won the EC's endorsement for the idea of enhanced ties, following a meeting of the EC-Turkish Association Council. However, on security issues, Turkey has reluctantly had to accept an offer of associate membership of the nine-nation Western European Union defence organisation.

Turkey's contention is that its value to the west has become more vital. But in the wake of the confusion over the Maastricht Treaty, even government officials concede that any chance of early Turkish membership of the European Community now looks increasingly remote.

Today, Turkey finds itself conducting the search for a new identity against a backdrop of political and economic uncertainty at home. Turkey's political establishment is still trying to rid itself of the constraints imposed in the wake of the last military coup in 1980. Moves are under way to liberalise the broadcasting sector from state control. Patent legislation is ready to go to parliament. There is even talk of seeking the necessary two-thirds support in parliament to throw out the 1982 military

constitution, which many Turkish politicians feel is at the root of the country's problems.

In many respects, Mr Demirel's conservative-led government has proven more resilient than many can have imagined. The prime minister has shown himself a skilful ringmaster in the often awkward squabbles of cabinet ministers and senior bureaucrats. An apparently weakened coalition has shown little sign of being permanently disabled by the recent defections of a number of deputies from the junior partner Social Democratic Populist party.

Nonetheless, for many Turks the great expectation with which the government's programme was initially greeted has been replaced by doubts and disappointment at the lack of progress. In an international environment of such dizzying change, the domestic agenda has come to play second fiddle.

On too many occasions, the painstaking search for political consensus has hindered effective action. On a range of domestic issues, from tax reform and privatisation to

human rights, Mr Demirel has instinctively chosen a policy course of least resistance.

Almost a year to the day since taking office, he has bowed to headline pressures within his True Path party, and abandoned any hope for a political solution to Turkey's Kurdish problem. With the economy forecast to grow by around 5-6 per cent this year, much of the urgency has gone out of the anti-inflation policy.

The economy is still on track for a customs union with Brussels in 1996, but an increasing number of companies question whether this is still in Turkey's best interest. Political vacillation has served to undermine the case for economic convergence with the EC.

Foreign investors intending to come to Turkey are still uncertain whether to expect more reform on the trade side, or whether they can plan for continued protection and labour costs currently enjoyed in the domestic market.

Turkey's problems are those of a robust economy trying to unburden itself of the shackles of a vast public sector, something that Mr Demirel inher-

ited rather than created.

Today many of Turkey's industrial families would not look out of place in more developed countries. Trade liberalisation has increased the efficiency of Turkish producers. Domestic manufacturing can no longer rely on an overvalued currency to protect it from import competition. Existing lines have been reoriented for exports, which today account for a growing proportion of company turnover.

This growing strength of the Turkish product market was underlined this year, when Unilever, the UK-Dutch industrial group, bought out the local Komili group, in what is believed to be the first instance of a foreign buyer putting a value on a Turkish brand name.

For all that, even in the most successful boardroom, the burden of the government's budget on the economy has become an increasingly dominant motif. The public sector borrowing requirement was 12.5 per cent of GNP in 1991, and shows little sign of improvement this year. Inflation, after slowing through the

summer, rose to 69 per cent in October.

Some bankers talk gloomily of impending business failures. In such an environment, companies have little inclination to put resources into greenfield site developments, although recent increases in capital goods imports are seen as a more positive sign that the investment cycle may be on the turn.

Stock market reform has been slow, while the index has fared worse than that of almost any other developing country, according to the International Finance Corporation, the World Bank's private sector lending arm. The Istanbul Exchange is still driven by the prevailing trend of interest rates, and until equities offer investors comparable returns, corporations are unlikely to be able to tap the market for a source of investment capital.

The tax system is also inadequate. An amnesty offered to tax offenders will provide a blip to the tax receipts in the current year, but it does not address the real problems of poor collection and widespread payment avoidance. Moreover

the system itself is distorted. Ironically, the one area where collection is possible is that of waged labour, now taxed at rates higher than any country in the OECD - an anomaly which is at the heart of Turkey's poor labour relations record.

The farm sector continues to enjoy implicit subsidies through the government's support-price programme. Any attempt to cut back on the programme could add to the social and political problems of urban migration, which has put services under such strain in Istanbul and other cities.

In many areas of social policy, there is an urgent need for more spending, not less. In health care, social security insurance, and primary education, Turkey falls far behind its OECD competitors. There is still no effective safety net which might ease the impact of the widespread closure of state companies.

As the World Bank makes clear in a study on the public sector enterprises, the cost of reform, through labour restructuring and other measures, is only \$7bn over two years. The financing cost of continuing to support the state industries is conservatively estimated at \$18bn. There would seem little choice but to push forward.

IN THIS SURVEY

Printing money to meet the loss

Financing the losses of Turkey's state-owned enterprises, generally through printing new money, has added to the budgetary burden Page 7

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TURKISH FINANCE, INVESTMENT AND INDUSTRY 2

FEW SUBJECTS arouse such contrasting views as the state of health of the Turkish economy. Some of the indicators – the inflation rate, the public sector borrowing requirement (PSBR), the steady erosion of the Turkish lira – remain consistently gloomy. Yet official reserves, often seen as a measure of an economy's well-being, are at near-record levels.

The balance of payments looks robust, with capital inflow comfortably matching the deficit on the current account. Another positive indication is the increasing facility with which Turkish institutions seem able to tap the international capital markets.

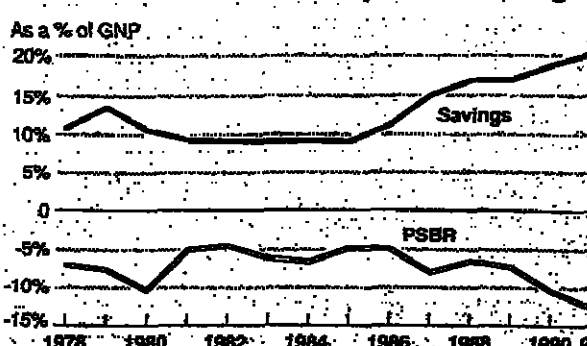
Turkey today is a dynamic economy striving to throw off the inheritance of a large state sector, in a free-exchange regime increasingly sensitive to policy errors. The foreign debt, at around \$51bn, is manageable. The private sector has proved resilient in a difficult business environment. Exports are now a major part of the Turkish balance of payments – where a few years ago all that Turkey exported was its *Gastarbeiter*, or guest workers. Equally encouraging, the recent growth in imports included a 34 per cent increase in shipments of capital goods, suggesting that Turkey may be nearing the end of the recent investment slump.

The problem, as ever, is the government's huge appetite for



Mrs Tansu Çiller has at times struggled to present a coherent strategy

Public sector deficits & private savings



Source: State Planning Organisation



Mr Süleyman Demirel's government sometimes ignored the Gulf factor

John Murray Brown on a dynamic economy striving to shed the inheritance of a large state sector

Government appetite proves inhibiting

funds, which crowds out the equity markets and has pushed interest rates to a point where they provide an active disincentive to investment. Already at around 70 per cent for deposits, bankers say rates are likely to rise further.

Mrs Tansu Çiller, the Istanbul professor entrusted by the prime minister, Mr Süleyman Demirel, to handle the economy, has at times struggled to present a coherent strategy, to address the need for fiscal and monetary discipline while creating jobs for a growing

labour force.

When she unveiled her programme in January, many economists expressed their doubts. The programme envisaged 5-6 per cent growth, while inflation was projected to fall to 40 per cent. The growth target still seems within range. Inflation, however, shows little sign of slowing down.

The figures, of course, mask one important factor – the

performance with the previous 12 months under the Motherland party administration.

For example, this year's growth rate is somewhat less impressive if you consider that, in 1991, the economy was at a virtual standstill. The tourism industry is a case in point. Badly hit by the crisis, the industry has bounced back. For the first half of 1992, revenues rose 60 per cent to \$1.4bn, the largest single item on the current account. On the other hand, Turkey is unable to look to the grant assistance which

it enjoyed in 1991. These amounts were vital in helping to close the budget deficit, and produced a small surplus on the current account.

The latest balance of payments figures nonetheless reassert the fundamental strengths of the economy. In the six months to June, the current account recorded a small \$760m deficit. On the capital account, portfolio investment was up, together with direct foreign investment, although this remains a surprisingly small item on Turkey's balance

of payments. In addition, there was a marked increase in foreign borrowings, with the Treasury for the first time tapping international bond markets in Japan and the US, after receiving a BBB rating from Standard & Poor's, the US rating agency. The one cause for concern, however, was a large increase in the errors and omissions, suggesting that residents are still choosing to hold their foreign exchange savings in hand.

The year started with the government announcing a wave of price increases for state enterprises, which the previous administration had held back in a bid to win voters in the run-up to the October election. The 11 per cent jump in inflation which resulted was then blamed

In September, there was thus little real surprise when inflation jumped by 7.4 per cent, compared with 3.3 per cent in August. In October, the rate was even higher, at 7.6 per cent or 69.2 per cent on an annualised basis.

Unless the government now comes to terms with the problems of the budget and the PSBR, it is hard to see how Mrs Çiller can hope to bring down inflation. In turn, without a reduction in the PSBR, upward pressure on interest rates will continue, holding

However, on tax and privatisation, two areas vital to the short-term budget picture, the government has vacillated. Officials rule out any major changes in the tax regime, although government receipts were enhanced by the law on tax amnesty for tax offenders passed in March.

On privatisation, the government is counting on raising TL5,500bn (\$438m) in 1992 from the sale of minority participation in what are, by and large, privately managed companies. The revenue effect is all too welcome, but, like the tax amnesty, this is little more than a one-off exercise, unless measures are taken to divest the state of the main loss-making state enterprises.

More controversial was Mrs Çiller's attempt to talk down interest rates in the first half of the year. By resorting to cheap central bank funds, she fuelled monetary growth as a way to exert downward pressure on rates. But in so doing, she came close to open conflict with a central bank governor, strenuously defending the lira's position.

Up to June, the central bank was forced to intervene heavily to sterilise this money creation by selling dollars to the market. Inflation strategy has since changed, but damage control has become the major preoccupation, leaving the fundamental causes of inflation untouched.

Without major reform, there is little room for manoeuvre on the expenditure side. Debt servicing still accounts for 20 per cent of total spending. To the government's credit, infrastructure investment spending has already been sharply cut back, much to the chagrin of the powerful contractors lobby, who rely on the government for project work. But economists expect the central government budget deficit to be closer to TL55,000bn, compared with the TL32,000bn forecast under the programme.

When the deficits on the public sector enterprises and the special non-budgetary funds are added, it is hard to see how the government can contain PSBR to the target of 8.8 per cent of GNP. Officials privately say the government will be lucky to see anything less than 10 per cent.

Few but the most pessimistic will see a crisis looming. There is nonetheless some disappointment that the government has not pressed ahead with its promise of structural reform.

A TASTE for Jermyn Street shirts is not the only thing he has in common with the prime minister. As "ambassador and chief adviser" to Mr Demirel, Professor Emre Gönsensay has emerged as a key figure in the Turkish government.

In the revolving doors of Turkish policy-making, the exact contribution of this 35-year-old former lecturer at the London School of Economics is hard to pin down. His Ankara office is in a small government building on the road out of town. Colleagues say his task is simply to throw up ideas for Mr Demirel.

If his curriculum vitae is anything to go by, he is not the grey academic type – director of Köp Holding, of Egebank, founder and director of Chemical Mitsui Bank Turkey, and chairman of Turkinvest.

Prof Gönsensay makes few public statements. He claims he was misquoted by the official Anatolian Agency, when

Profile: Emre Gönsensay

A thrower-up of ideas

expressing enthusiasm for the prospect of a No vote in the French referendum on Maastricht, which he said would enhance Turkey's long-term chance of finding a home in Europe.

But Turkey, he says, wants a Europe as wide and as open as possible. "There needs to be a multilateral globalisation of the northern hemisphere. Look at the Black Sea Co-operation Agreement we signed in June: that's our contribution. It's not watertight and it's not a trade bloc."

He maintains that there are important lessons for Turkey in the confusion over Maastricht and the currency crisis in the exchange rate mechanism.

His enthusiasm for a treaty which some believe is already a dead letter might seem curious, particularly given Turkey's own economic realities – 67 per cent inflation, and a budget deficit running at 11 per cent of GNP. In diplomatic and business circles, there are already real questions as to whether Turkey will make its 1996 deadline of full Customs Union with the EC, given the need to keep tariffs high for revenue-raising purposes.

Prof Gönsensay's view is that Turkey should adopt the financial targets on inflation and budget deficits, as agreed by the Twelve. "Maastricht, together with a fixed exchange rate, could provide a convenient external anchor for Turkey," he says. "It's an irony, but in Europe there is so little inclination left to bring inflation out of the system, that it's not worth the suffering. In Turkey I think we are still prepared to suffer."

He sees little room for manoeuvre on tax reform, contrary to the analysis of the OECD and other economists. Turkey's economy is already taxed at around 26 per cent of GNP, he says. "In a country like ours, you cannot hope for a rate much better than that."

The alternative is to cover the deficit by more foreign borrowing or foreign investment. "Personally, I would like to have seen an increase in our foreign borrowing this

year. Our credit rating was fairly good. But now we've lost time." Of course, the only "miracle" cure he can see is privatisation.

The professor has just two proposals: adopt the practice of balanced budgets, and strengthen the central bank. "We need a mandate for the central bank to enable it to stabilise prices. No bank governor in Turkey can stand up and do something different from the government."

His idea is to peg the exchange rate to some low-inflation currency, which he says would take the "discretion out of the central bank's policy-making."

If only for the economic benefits, Prof Gönsensay wants "to see Turkey fulfil the conditions for full membership of the European Community. "Customs Union without full membership? Well, that's a matter for the politicians."

John Murray Brown

The latest balance of payments figures reassert the fundamental strengths

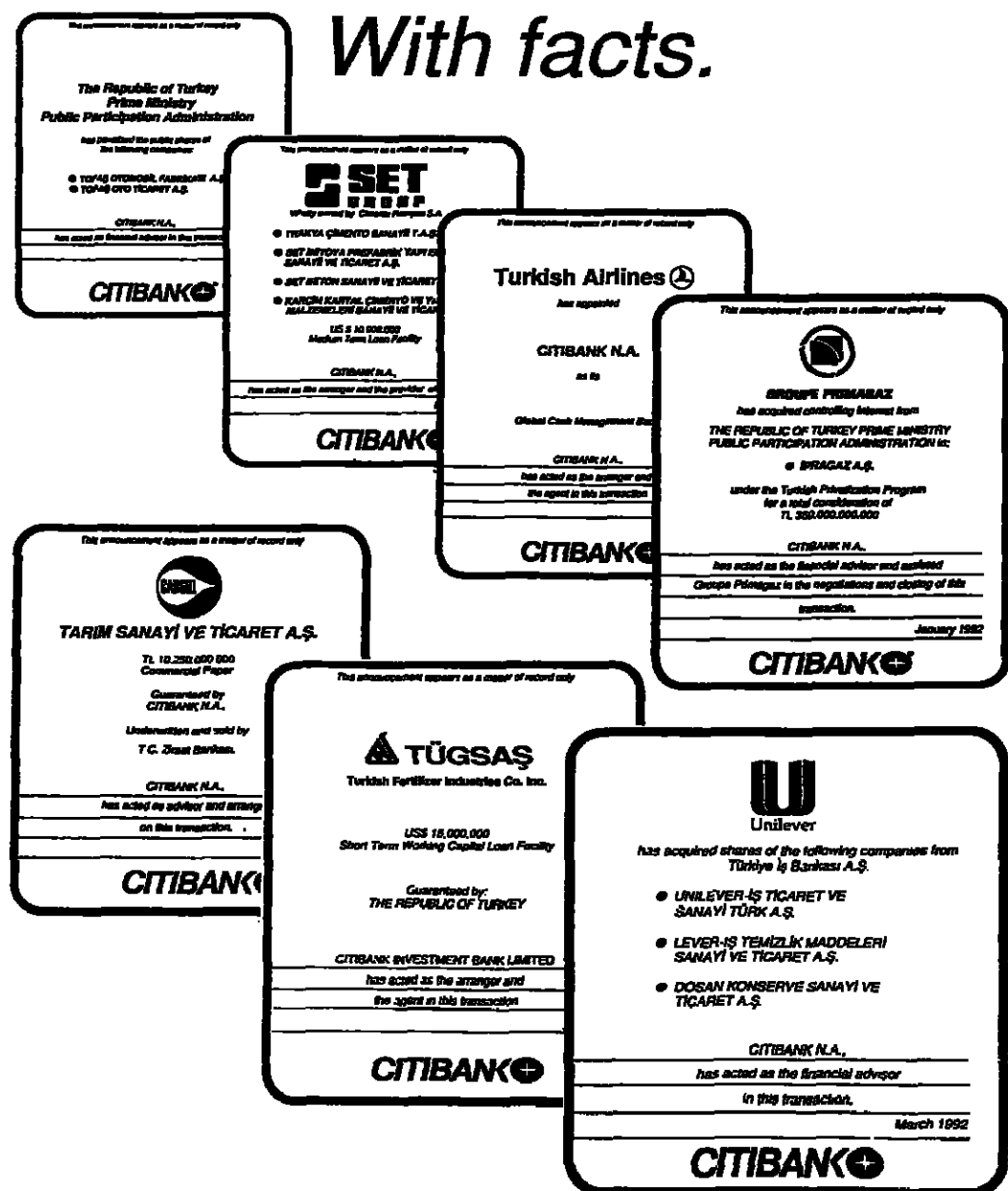
back badly needed private sector investment.

Some measures have been taken. Changes were introduced to the taxes relating to government securities, to make it more attractive to hold longer-term paper, to extend the government's debt maturities.

The strategy on capital markets reform of the capital markets too has been shaped by the need to create longer-term funds for business, hitherto reliant on costly bank borrowing. Mrs Çiller has introduced new products, like securitisation of consumer credits and other bank assets. Regulatory change has tightened up disclosure rules. In addition, the government is now encouraging equity investment on the part of mutual funds, in a bid to increase market liquidity.

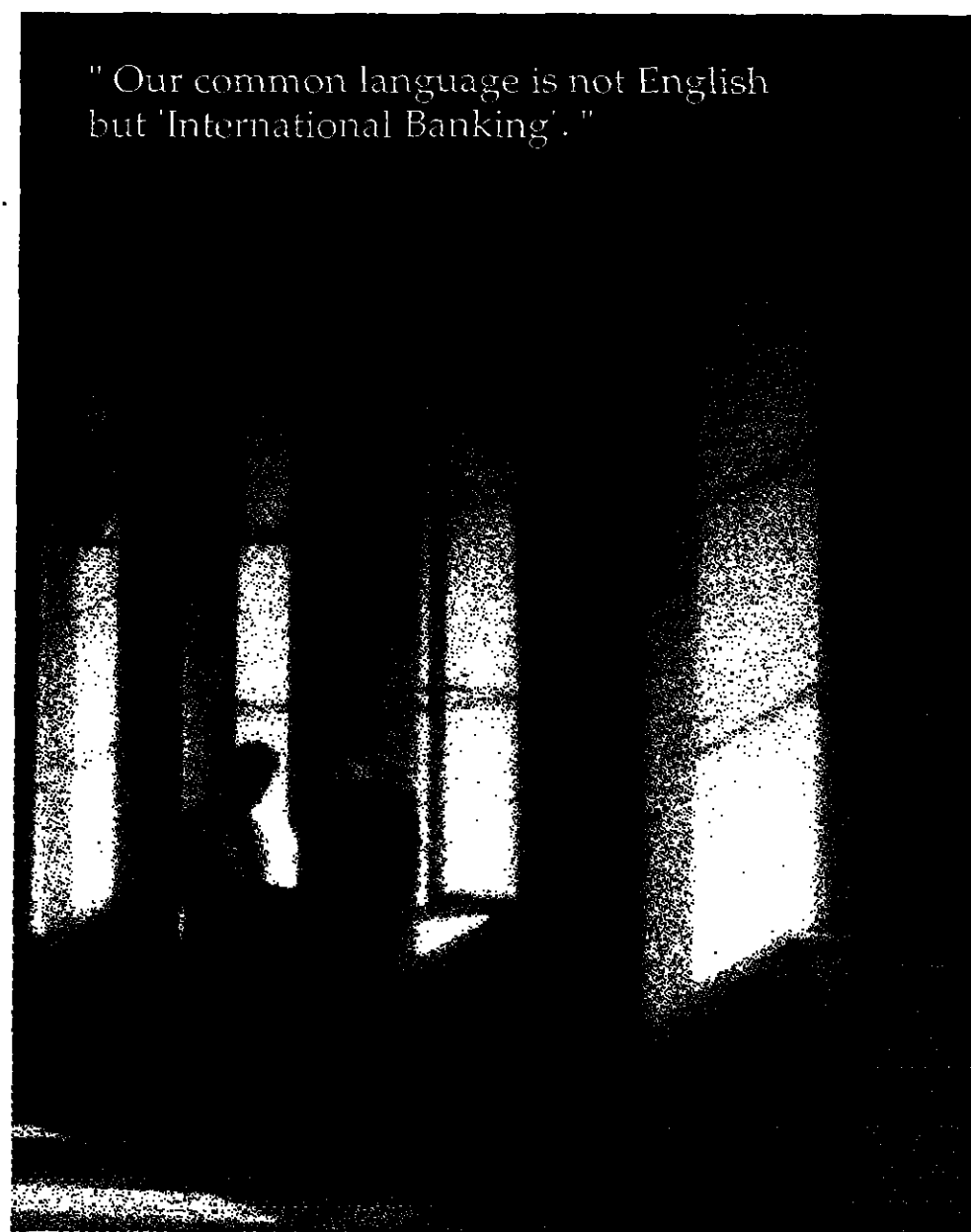
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TURKISH FINANCE, INVESTMENT AND INDUSTRY 3

Banking: a successful sector. But are there too many players? asks Anthony McDermott

Policies criticised as incompatible

TURKEY'S TOP BANKS: 1991 (\$m)				
	Tier One capital	Capital/assets ratio (%)	Pre-tax profits	Assets
1 TC Ziraat Bankası	700	6.74	385	10,383
2 Akbank	543	14.90	294	3,846
3 Türkiye İş Bankası	282	4.81	94	5,449
4 Yapı ve Kredi	260	6.93	101	3,746
5 Türkiye Garanti Bankası	213	9.11	96	2,334
6 Türkiye Emlak Bankası*	153	2.77	51	5,510
7 Vakıflar Bank	130	4.28	25	3,032

*1990

Source: The Banker, September 1992

LIBERALISATION has brought with it two big questions. Is Turkey overbanked? And is it overregulated?

Concern also remains as to whether it is over-dominated by the big four: Ziraat (the largest commercial institution, with branches in London, New York and Frankfurt, and which controls about 40 per cent of total deposits and supplies credit to the agricultural sector), Akbank, İşbank and Yapı ve Kredi.

Banking is one of the country's most successful economic sectors – not least when performance is identified on the Istanbul Stock Exchange – though profits are currently leaner than last year.

But arguments have persisted, which Mr Rüştü Saracoğlu, the central bank governor, tactfully tides over, about the extent to which the government is committed to curb inflation and is resorting to short-term advances from the central bank in order to finance economic growth.

Mr Saracoğlu regrets that the central bank is seen as "an arm of the government", rather than an independent entity.

The World Bank also wonders whether the government has a coherent banking policy for the next

three years. Inflation of about 70 per cent in itself causes less concern than a feeling that the government should try to find a balance between the inflation rate, the growth rate, the balance of payments and the financing of the budget deficit.

But the governor has urged that Turkey should follow the German example and make the central bank more independent of the government, and even

impose a legal limit on the value of bank notes in circulation.

The central bank believes there are too many small banks, and that new licences handed out by the Treasury were a mistake. Of more than 80 local players, including commercial and investment banks, only 12 had more than 100 branches, and 25 have less than 10. Some bankers argue

that Turkey is not overbanked, but over-branched.

Mr Erol Sabancı, managing director of Akbank, one of the most profitable institutions, has said: "I don't believe we need so many banks. Mergers among government banks can and should be done, and also in the private sector." But since the sector seems to be profitable and successful, there is resistance to change.

In theory, the 1980s were a decade of reform and restructuring, to enable Turkish banks to integrate and compete in the international arena. Interest rates on loans and deposits were freed, as was the foreign exchange market. However, much of the state-regulated system has remained – hampered by the political in-fighting of the various offices which control and run the economy.

Liberalising legislation came into force at the beginning of 1990, when there were 5,975 bank branches and total bank deposits amounted to TL813.7bn (\$24.7m). Interest rates were floated, and soon rose exorbitantly, leaving the already under-capitalised banks with a large quantity of non-performing loans, and encouraging more informal finance houses to start business.

At the end of 1990, there were 40 deposit-taking banks, eight of which were in the public sector. There were also 26 foreign banks. As with the

rest of the economy, the banking system faces some confusion in the sometimes contradictory views it receives from the offices of Mr Süleyman Demirel, the prime minister; Mrs Tansu Çiller, the minister of state with responsibility for the economy; and Mr Rüştü Saracoğlu. The last has held his position since July 30 1987.

Also at issue has been the

cash management, personnel training and technology. Standardised reporting and external auditing have become common practice.

Meanwhile, the past year or so has not been without difficulties.

"The year 1991," the governor of the central bank said last April, "proved to be a rather difficult one in conducting monetary policy..."

Eximbank has extended credits of \$50m to Hungary for the import of Turkish intermediate, consumer and investment goods, and \$50m to Uzbekistan

question of whether certain government policies are compatible. For instance, given the aims of sustaining economic growth and making the economy more competitive internationally, is it also realistic to expect to keep inflation low?

There has been some streamlining of domestic commercial banking, through improvements in trade finance,

We entered with the advent of the Gulf war. The environment of uncertainty hit the banking sector hard, and in just 10 days, nearly 12 per cent of total Turkish lira deposits and 11.5 per cent of foreign exchange deposits were withdrawn from the banks.

The governor claims, with some justification, that the central bank's intervention prevented a damaging flight of

capital – even at the cost of running down reserves.

Political uncertainties resulted in a general election, but, as the governor pointed out: "For the first time in its history, Turkey managed to hold a general election without resorting to any foreign exchange restrictions."

Yet he remains staunchly at odds with having to fund the government's soaring public deficit, as are the authorities involved with the privatisation of state economic enterprises – particularly where the public sector is involved.

Turkey's banking ambitions extend outside the country. Its Eximbank has extended credits of \$50m to Hungary, for the import of Turkish intermediate, consumer and investment goods, and \$50m to Uzbekistan. Last May, Mr Demirel announced a \$1.2bn package of export credits and soft loans for six of the Moslem central Asian states.

In 1991, Turkey's Eximbank had nominal capital of TL2,000bn, and aimed to increase the competitiveness of exports. But perhaps the government in Ankara should look more closely at banking problems at home before becoming over-ambitious abroad.

Profile: Rüştü Saracoğlu, governor of the central bank

Adaptable but independent

Mr Saracoğlu has had his differences with the new government, particularly with Mrs Tansu Çiller, the economics minister. During the recent IMF-World Bank meeting in Washington, she publicly blamed the governor for Turkey's current economic ills.

The Bank's balance sheet has rarely looked more robust. Reserves are near record levels

But today the Bank's balance sheet has rarely looked more robust. Reserves are near record levels. And for the moment, at least, the tussle with the Treasury over the use of cheap credits to finance its expenditures seems to have been resolved, in the governor's

favour.

He even shows little concern about what some economists believe is the worrying growth of foreign borrowing by the private commercial banks. As he likes to point out: as a percentage of Turkey's external receipts, foreign borrowing has in fact fallen steadily during his governorship.

In many ways, Mr Saracoğlu sees himself as a classic central banker – there to preserve the domestic and external value of the currency, contain inflation, and influence the price of money by containing the liquidity of the financial system. But he is the first to acknowledge the limits of the Turkish system: "Given the monetary constraints, and given our culture, it is not easy. The central bank has never really been looked at as an independent institution, and still is viewed as an arm of

government."

Nonetheless, he is quick to recognise what he feels is the new maturity of the Turkish financial system, which six years ago had no interbank money market, and only four years ago started foreign exchange trading.

Through the Gulf crisis, the turbulence of the last days of the old Motherland party government and the political and economic uncertainty surrounding the new coalition, confidence in the lira has never really looked under threat, says the governor.

Structural problems remain. The central bank is still required to fund the agricultural purchases of TMO, the state-owned cereals board. More damaging, the Treasury can still turn to the Bank for up to 15 per cent of budget appropriations.

Many countries set such a limit; however, it is normally considered more prudent to set the figure as a percentage of revenues, not spending as in Turkey's case.

The governor's personal opposition to such a provision is well known. "A government must voluntarily choose not to resort to it. Even if it is legally feasible, it is not economically sound," he argues.

For, as Mr Saracoğlu maintains, the size of Turkey's budget deficit is not itself the problem, so much as the way it is financed. "The problem is the size of the fiscal deficit, relative to the financial system," he says.

The Treasury's ability to draw on cheap central-bank money threatens fiscal stability. In 1990, the Treasury and the Bank agreed a protocol, under which they put a monetary



Rüştü Saracoğlu: the only incumbent to be re-elected. Picture: Terry Kirk

tary ceiling on the volume of these cheap credits, over which the Treasury must pay market rates. "And lo and behold, the Treasury never borrowed more

than the limit," the governor says.

Today it is a different matter altogether. Mrs Çiller spent the first half of the year fine-tuning

the level of credit in the system, in pursuit of her goal of lower interest rates. The strategy has meant increasing lira liquidity, by turning to the central bank, rather than the bond market, to meet the Treasury's growing demand for funds.

The strategy failed, in part because Mr Saracoğlu entered the market to absorb the lira expansion he had just been forced to create. But by adopting a tight money policy, inflation was held in check, and the confidence in the lira was maintained. The Bank's intervention prevented a run on the lira. It also served to contain the lira value of servicing Turkey's foreign debt.

But, just to absorb the increased liquidity, the Bank estimated that it ran down its reserves by \$2.5bn selling foreign exchange to the market. With central bank gross reserves now recovered to \$7bn, compared with \$4.5bn in June, some analysts wonder whether Mr Saracoğlu may just be preparing for another tussle with Mrs Çiller.

John Murray Brown

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TURKISH FINANCE, INVESTMENT AND INDUSTRY 4

Profile: Erol Aksöy, of Iktisat Bank

Innovative showman

MR Erol Aksöy has acquired, in Turkish banking terms, a formidable list of titles.

Born in Istanbul in 1946 (thus the age of fifty still beckons), he is vice-chairman (but leading light) of Iktisat Bank, with a net worth of \$50m and representative offices in New York, London and Moscow.

The bank handles between 8 and 9 per cent of Turkey's two-way trade finance. Already in 1991, in its investment role, it accounted for 17 per cent of commercial paper issued and 11 per cent of corporate bonds in Turkey.

Mr Aksöy is also chairman of Iktisat Leasing, the first company of this kind to be set up in Turkey. Hayat and Kuek Sigorta, life and non-life insurance companies; Banque Internationale de Commerce (BIC), with more than \$1bn on loan to companies in Turkey (75 per cent owned by Iktisat); BIC International Credit, in London; and the Park Avenue Bank, in New York, a small bank with equity of \$15m.

Turkey, he protests, had become, in banking terms "very introverted". He has tried to change this.

His ambitions, interests and career achievements have not necessarily endeared him to his closest associates. But he is persuasive in conversation, as one who has gone out to be first in whatever fields he attacks. He occupies an office that is dimly-lit and hung with many paintings in heavy gilt frames. The intended impression is of old money - though it is not. Books include "Leadership Secrets of Atilla the Hun". Mr Aksöy also has the largest collection of ink tiles in Paris (half his personal collection) - a harmony of aquamarine and turquoise.

At the same time, his rise to banking influence and authority reflects other aspects of his life. His education includes a BS degree in electrical engineering from MIT, 18 months in the Turkish army, an MBA from Harvard Business School and a baccalaureate from the Lycée Michelet in Paris.

More intriguing than the facts and figures of the organisations that he controls is the way in which he was involved with the largest family-owned



Erol Aksöy: persuasive in conversation

conglomerates - Koç and Sabancı.

In 1976, Mr Aksöy became vice-president in charge of finance at the Koç group, and then general manager of Garanti Bank, owned by both Koç and Sabancı. This bank's operations were not a success, not least because Sabancı was reluctant to have it succeed in a way which would have provided competition with Akbank (wholly-owned by Sabancı).

In 1980, he became managing-director of Interbank, owned by Mehmet Emin Karamehmet, head of the troubled Cukurova family group, developing the bank into the country's first wholesale trade finance bank - thanks, in part, to being able to draw on his US background by introducing into the office marble, roses and clean-lined executives.

In 1984 came a turning-point, when he managed to acquire, for next to nothing, a small regional bank - Iktisat Bank. He expanded its activities to the growing capital markets in Turkey through its subsid-

aries. There were financial links between Interbank and Iktisat, which helped the latter out of its troubles, thereby enabling it to provide a basis from which to move overseas.

For, through 75 per cent ownership, he is chairman of the bank in Paris and has also acquired control of ownership of the small New York bank - the Park Avenue Bank. It was another first for Mr Aksöy, in that it made him the first Turkish banker to venture to issue Turkish paper overseas and to syndicate loans for Turkish companies there.

Meanwhile, he has displayed his showmanship by having one of the largest ocean-going yachts in Turkey, and by defying, legally, TRT, the government broadcasting agency, through the direct beaming of private television programmes from Paris to his homeland. It has not made him loved, but he has shown that the Turkish banking system has room for ingenuity and innovation.

Anthony McDermott

THE ISTANBUL Stock Exchange (ISE), Turkey's only one, plans to move next year from the building which used to house the company Eros, producing underwear, to modern premises with fully computerised facilities.

The move is necessary because, although it is a comparatively small entity, with the shares in 143 companies being traded in October, the ISE is facing challenges that reflect the severe demands of the government's privatisation programme and a desire on the part of brokers to spread share ownership.

The genealogy of the ISE stretches back to the Dersaadet Stock Exchange in the 19th century, when it was the country's most organised exchange. The Capital Market Board was established in 1982. Regulations governing the establishment of the ISE were approved by the government in October 1984. It opened late in 1985, and began operations the following year.

The Interbank Market was initiated in February 1986, the Foreign Exchange Market in August 1988, the Gold Market in March 1989.

The ISE's opening to international investors permitted free repatriation of dividends, and initial investment and capital gains were allowed. Taxes on capital gains were suspended. But foreign investment has still to take off.

The Securities Market was established in June 1991. In May, amendments were introduced to the Capital Markets law, which aimed at providing greater investor protection against insider trading. These changes were intended to encourage local institutional investment and to boost liquidity on the ISE. In July, the government introduced tax reforms to revive (from January 1993) market activity, by giving encouragement to investors through tax exemptions, and to companies considering equity flotations.

The daily average volume of trade in shares has increased considerably in the past five years - from \$417,000 in 1988 to \$3.2m in 1992, and over \$34m by the end of 1991 (\$37.8m January-September 1992). The total trading value rose from \$16m in 1988 to \$8.5bn in 1991 (\$7bn in the first eight months of this year). The number of shares traded rose over the period from 3m to 4.5m (\$3m during January-September 1992). The major surge in

Anthony McDermott assesses the stock market

More will own shares

activity was between 1989 and 1990, when annual trading volume rose from \$818m to \$5.5bn and the number of companies traded from 76 to 110.

The ISE index - 100 in January 1986 - hit a peak of 5,394.48 in July 1990, and stood at 3,894.63 in the middle of last month.

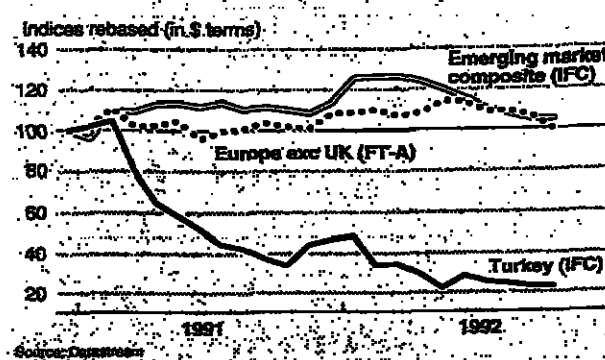
The growth in the capital markets is reflected by the fact that, while the ratio of stock market rights issues to annual gross domestic savings in the economy was 1.5 per cent in 1988, it had reached an estimated 8.1 per cent in 1991.

However, Turkey's domestic capital markets have been dominated by government debt, with the result that private companies rely almost entirely on bank debt for financing. But while the ISE may have grown in real terms six-fold since 1980, this has largely been accounted for by the introduction in April of a second board for bonds, which effectively meant government paper.

But there have been major fluctuations - notably in October last year, coinciding with the general election - to the extent that the Capital Markets Board felt the need to issue a new decree to discourage short-selling as a result of heavy daily speculative trading.

The market recovered after the election, but broader price indices over the past two years indicate the extent that the ISE - hit by inflation and the

How the market measures up



depreciation of the Turkish lira against the dollar - is one of the more under-performing markets among developing countries, and one which, in spite of legislation, is still not attractive to foreign investors.

Another factor affecting the market negatively is the trading volume of public-sector securities, which make up about 80 per cent of the total trading volume of the capital markets.

The Turkish authorities - as recently as the spring of this year - were hoping that a growing number of institutional players on the ISE would reduce the market's volatility. Euronews wrote that:

"Material produced by securities house Global Securities shows the wild fluctuations in price/earnings [p/e] ratios for the 140 stocks on the exchange. In September

1989...the index p/e was 9.6. In 1990, the index went through an extraordinary roller-coaster ride, with p/e's reaching 30.9 at its peak in September. Indeed, for a period between the end of 1989 and the third quarter of 1990, Istanbul was the world's best performing index. The Gulf war brought the index back to 1989 levels of 13 or 14, and today [May 1992] it stands at 10.5."

On October 16, it stood at 10.93. Dividend yield that day was 5.35 per cent.

In terms of profitability, according to a study based on the performance of companies quoted on the ISE, the energy sector was in the lead, with Cukurova Elektrik and Kepez Elektrik the outstanding companies. This sector, which recorded TL44.81 profit for every TL100 of electricity sold, was followed by the tourism sector (37.56 per cent),

insurance/leasing (27.29), electronics (26.30), construction (23.44) and cement (20.37).

More recently, the ISE saw a fall in July of 3.3 per cent in the composite index; but the index fluctuated between 3,900 and 4,200 points, and a further decrease of 2.5 per cent was recorded in late terms in August (reflecting an eight-month decrease of 4.9 per cent in late terms and 31.5 per cent in dollar terms).

Trading volume in August fell strikingly by 47 per cent, compared with the previous month. Overall, during the first seven months of 1992, according to Global Securities, the Istanbul-based brokerage house, the ISE's composite index fell to 3,141.98 points, to rise as high as 5,128.91.

Mr Haydar Serezli, general manager of Carsi Securities, the largest brokerage company, with 5.2 per cent of total transactions in 1991, pleads for wider education in equity investment, to coax money out from under bedspreads and into the ISE.

He regrets the lack of interest among foreign investors, and wants more involvement by institutional investors. He does not see a need for exchanges elsewhere in the country, for his company is able to provide information to 3,000 people a day in six different cities on any one working day. But he points out: "It is not yet a mature market. There is a huge unfulfilled demand in the local market."

Once the ISE has moved and is fully automated, Mr Serezli expects to see much interest among the 60 per cent of the national population of potential shareholders who live in the main 15 cities.

Gold may be given its freedom

A wider market is sought

THERE ARE growing murmurings that the government is considering lifting the remaining restrictions on Turkey's fledgling gold market.

Three years after gold trading was approved, officials are studying the possibility of freeing the import of gold, which is still a central bank monopoly, opening a refinery, and making a paper-based market to trade in the precious commodity.

With the republics of the former Soviet Union searching for outlets for their gold production, Turkey has revived the search for a gold trading market.

Mr Yavuz Toruner, the head of the Istanbul stock exchange, is said to be considering establishing a paper-based market in the covered bazaar, where much of the gold trading currently takes place. Traders say such a market would provide a useful hedge for gold manufacturers. Tur-

key today has a flourishing jewellery business, fuelled in large part by the tourist trade.

Turkey is also a hub of a large regional trade. The country is the largest gold consumer in the Middle East. According to Gold Fields Mineral Services, of London, the Middle East accounts for about 30 per cent of the world's supply of scrap gold. The World Gold Council recently opened an office in Istanbul. Gold News, a magazine for the trade, now has some 3,000 local subscribers.

The country is still considered a cheap place to buy gold. In 1991, the central bank sold 113 tonnes. The Bank sells on a consignment basis, using two designated banks and 26 approved exchange dealers, at the official international price plus freight and insurance charges. Traditionally, about half the imports are re-exported as fabricated gold. Perhaps as

much as 10 per cent of Turkey's imported gold is produced as the Republic coins.

In many Turkish families, gold is still held as a hedge against rapid inflation and a depreciating currency. Historically, many of the Ottoman government officials returning home after the collapse of the empire found gold a convenient commodity to bring with them. Traders also hope some of the 5,000 tonnes, which is estimated to be hoarded away, may come to the market.

The problem, as ever, is one of control. Before the mid-1980s, gold trading was an illicit activity. The establishment of an official market for the commodity is widely acknowledged as one of the best examples of Turkey's drive to liberalise its financial markets under the former Ozal administration.

John Murray Brown

Telecommunications: the Soviet collapse presents an opportunity

Aid plan to link new republics

IF THE central Asian heads of state attending last month's Asian summit were able to get a line home, then they only have one organisation to thank for the service.

In the wake of the collapse of the Soviet Union, PTT, Turkey's state-run telecommunications company, is embarking on an ambitious project to join these former Soviet republics with the Turkish telephone network, and through Turkey's automatic transit system, to provide a communication link-up with 198 countries in Europe and beyond.

Officials are keen to stress this is an aid project, funded by the Turkish government budget, to help set up a basic telecommunications infrastructure. But the plan is a daring one, "gifting" technology today in the hope of long-term commercial gain tomorrow. It is one of a number of government projects now under way, to cement the growing political and economic ties between Turkey and its long-separated Turkic-speaking neighbours.

Renting space from Intelsat, and beaming a two-way transmission from dish antennas in each of the countries to an earth station in Turkey, the PTT has set out to satisfy the most urgent needs of government offices, embassies, businesses and hotels.

The first stage, a satellite link with the digital exchange in Azerbaijan, was inaugurated on May 3 this year. Kazakhstan is already in operation. Kyrgyzstan should be up and running next month.

Turkey's state telecom corporation will supply coin boxes, telex facilities and fax machines. Meanwhile, the country's private phone companies are installing public exchanges. Netas, a former state-owned company, now a joint venture with Northern Telecom of Canada, has installed its DMS switching system in Kazakhstan; while Teletas, part owned by Alcatel of France, is supplying its Systek 12 to Uzbekistan and Kyrgyzstan.

Initially, the PTT is supplying some 2,500 lines to each

republic with the ability to increase capacity to 30,000 lines. In addition, local trunk lines within each country are being installed. Using the same system, Ankara is also beaming Turkish state television, and hopes to take their programmes in exchange.

The government is footing the bill. Mr Cengiz Anik, head of the international division at PTT, estimates the cost of what is in essence a turnkey project at around \$20-25m.

The Central Asian link-up is just one of a number of projects now being handled by

The daring project envisages long-term commercial gain

PTT's international relations division - "PTT's window on the world," as Mr Anik calls it. Through the Sarp gate, there is now a cable link with Tbilisi, which means Georgia's telecom authority can tap into Turkey's international gateway switching system to transmit to Europe and beyond.

The PTT is also doing its bit to end the isolation of the former Yugoslav republic of Macedonia, still only formally recognised by Turkey and Bulgaria. Mr Anik says 60 lines now reach the capital, Skopje, through a "terrestrial" or land telecommunications link from Sofia, the Bulgarian capital. Through the Macedonia connection, Turkey is also able to communicate directly with Albania, which in turn is linked to Italy and the European mainland. The operations are apparently quite profitable. "We expect to make \$150m from the division this year," says Mr Anik.

Taking their lead from PTT, Turkey's private telecom groups are venturing where others fear to tread. Even before the final break-up of the Soviet Union, Netas had signed a \$20m contract with Azerbaijan to supply digital switching systems for public exchanges, as well as the smaller Dicle rural exchange.

The deal envisages setting

up a joint venture to manufacture the Dicle system with the Azeri state telecom company. Mr Tanju Argun, the company chairman, says the Netas DMS family is the first digital switch to be installed in the former Soviet Union. Netas has had to be very flexible on payment negotiations. Indeed, the company is understood to be taking payment in the form of aluminium and other resources under barter arrangements.

Netas believes it has a product to match the market. The DRX-4 or Dicle rural exchange comprises 512 lines, and is ideal for village-size communities. The robust nature of the hardware means it is well suited to hard geographic conditions. "The switch is designed by customer input, not a technology-driven product," says Mr Argun.

The system, for example, is able to work in temperatures ranging from 0 to 50 degrees C, compared with 35 degrees for a normal system, and at altitudes of up to 3,000m. It is easy to install. It comprises what the technicians call a "fully distributed architecture," built on models and groups. The great beauty of the system is that the design means a local failure will have little impact on other subscribers.

"It's the easiest thing in the world to have two people talking. The much more difficult part is the maintenance and administration," says Mr Suat Bayasan, of Netas's research department. He estimates that, of the total software costs, 30 per cent is devoted to call processing and the rest tied up with administrative issues like billing.

Before the Soviet collapse, Netas had been in discussion with officials at the Leningrad Institute of Technology, trying to unravel some of the problems. "But you can't just put an exchange there and assume it will work. Every state has different signalling systems," says Mr Bayasan.

"It's like a museum," says Mr Argun, the Netas chairman. "There are all types of products. And its going to take a huge R&D requirement to interface some of the products."

John Murray Brown

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TURKISH FINANCE, INVESTMENT AND INDUSTRY 5

Textiles

Investment is needed to match rivals

THE TEXTILE and clothing industry, which is important to Turkey's economy, is entering unpredictable times. It needs investment on a large scale, and the ability to cope with competition at a time when the evolution of the Multi-Fibre Agreement (MFA) may be in question.

The MFA, in turn, depends on what happens next in the Uruguay Round under the General Agreement on Tariffs and Trade (GATT). In the event of their failing, existing quotas under the MFA, designed to protect the industries of the richer countries, would remain. Whatever the outcome, Turkey must seek new export markets.

Within the manufacturing sector, textiles and clothing contribute 20 per cent to output, and employ around one third of all workers. According to the State Institute of Statistics, the value of the industry's exports has risen steadily, from \$350m in 1980 (28.6 per cent of all commodity exports) to \$4.3bn (31.5 per cent) in 1991.

But in order to compete with its main rivals - including China, Hong Kong, South Korea, Pakistan and Bangladesh - something like \$6bn will have to be invested in modernisation over the next five years. This will involve updating weaving and spinning plant. Ninety per cent of spinning machines, for example, are more than 15 years old.

Modernisation is needed to offset the gradual rise in Turkish labour costs. At the heart of the problem is the fact that the government has, for political reasons, preferred to invest in (or to subsidise) farmers producing cotton, especially in the main growing regions around Izmir and Adana, rather than in textiles - paying as much as twice world cotton prices.

In terms of current political issues, the apparent stalling of the GATT talks is, in one sense, bringing only partial relief to the Turkish textile industry. On the one hand, there was not enormous satisfaction with the planned 10-year phasing-out agreement of the MFA - theoretically agreed on within the context of a successful Uruguay Round. On the other, the absence of an operative MFA makes Turkey vulnerable to a growth of bilateral agreements and quotas.

The Istanbul Textile and Apparel Exporters Association (IKTIB), with its 10,000 members producing something like 80 per cent of exports in the sector, realises this. The sector is not without problems. There is competition from producers in the Asian and far-eastern countries. These low-wage producers and their influence on the world

Cotton production and use

	Production (tonnes)	Capacity use (%)
Woven cotton		
1985	254,000	93.4
1986	259,000	89.6
1987	282,000	94.3
1988	290,000	93.2
1989	307,000	95.8
1990	314,000	99.0
1991	302,000	93.2

	Production (tonnes)	Capacity use (%)
Cotton Yarn		
1985	406,000	90.7
1986	434,000	86.3
1987	500,000	91.4
1988	515,000	90.6
1989	530,000	79.7
1991*	484,000	67.9

*1991-1992 production capacity was estimated at 712,000 tonnes. Source: Industrial Development Bank of Turkey

Textile and clothing exports

	Volume ('000 bales)	Value (\$bn)
1980		
Textiles	373.6	1.4
Clothing	184.9	2.9
Total	558.5	4.3
1991		
Textiles	385.8	1.4
Clothing	210.0	3.2
Total	595.8	4.6
1992 (Jan-July)		
Textiles	185.3	0.8
Clothing	133.7	2.2
Total	319.0	3.0

Source: Industrial Development Bank of Turkey

market had the effect of causing lay-offs among the full employment total of about 2m.

IKTIB maintains that the competition from these developing countries is unfair, because of government subsidies. Indeed, in a rare case for a developing country towards another, in October 1991, Turkey imposed a 20 per cent anti-dumping tax, due to expire on December 10, on cotton yarn imports from Pakistan.

The principal market is the European Community. But here Turkey has run into difficulties, because of accusations of dumping which date back to 1981. Brussels relented to some extent, by announcing in October 1991 that it was dropping countervailing duties on imports of Turkish polyester fibres and yarns, following Ankara's agreement to phase out its subsidy on these textile exports. But in March the EC Council of Ministers imposed definitive anti-dumping duties on cotton yarn of 12.1 per cent, with exceptional duties of between 4.9 and 12.1 per cent for certain companies.

The EC, in particular, accused Turkey of dumping cotton yarn on the European market in 1991, and imposed then a 12 per cent tariff. Broadly, IKTIB does not regard EC textile trading policies as



The industry's labour costs are rising

Picture: Terry Kirk

fair. Since then, tariff disputes have surfaced periodically. However, in November 1990, as part of Turkey's compensation for applying economic sanctions against Iraq, the US administration agreed to increase the quota for textile imports in 1991 by 50 per cent.

The evolution of Turkey's textile and garment industry as one of the major suppliers to the EC has taken place over the last five years. Overall, exports of clothing dominate. From \$314m in 1981, they rose to \$3.2bn last year, representing 69.6 per cent of the \$4.6bn textile and clothing exports. Over the past decade, clothing exports, apart from dips in 1985 and 1986, have experienced substantial growth rates - 13 per cent in 1991.

The relationship with the EC, where Germany currently takes 85 per cent of Turkey's textile and clothing exports, is dominant. Three-quarters of textile and clothing exports go to the EC. In 1991, after Germany, Britain, Italy and France took altogether about 10 per cent. The role of Germany in this export pattern reflects the close economic and social relationship between the two countries.

According to IKTIB figures, Turkey is the world's seventh largest cotton producer, with the 1991-92 crop, estimated at 2.8m 480lb bales, accounting for 3 per cent of the world cotton crop. Cotton yarn production has grown steadily since 1967, and subsequently, as a result of government incentives in the early 1970s, at a swifter rate. Yarn production reached 500,000 tonnes in 1987 and has remained at about that level since, amounting to 530,000 tonnes in 1990. Within the total woven textiles industry, cotton woven fabrics have the highest share of production, amounting to 314,000 tonnes in 1990.

Turkey also produces all the major commercial synthetic yarns and fibres, with acrylic fibres in the lead, ahead of polyester yarns and fibres and polyamide yarn. Production of these, 215,000 tonnes in 1985 has risen.

The US market for textile and clothing exports, which

amounted to \$304.4m, or 6.6 per cent, in 1991, is expected to be increasingly difficult if protectionism strengthens. IKTIB takes some satisfaction from its high quality and supply-time response of five weeks for the EC, which it claims the Far East cannot match. But the formation of the North American Free Trade Agreement, linking the US, Mexico and Canada, could make the US market more difficult.

Some compensation could come from exports to the neighbouring countries of the former Soviet Union, and to South Africa. Closer production co-operation with Japan could also result in an increase in exports. But growth potential lies more in ready-made garments than with textiles. However, much will depend on government investment policies.

Anthony McDermott

John Murray Brown explains the foreign interest in cement

State sell-offs prove inviting

CEMENT, like so many of the industries attracting foreign interest in Turkey, is booming for one simple reason - the country's vast underdeveloped home market.

The point is often missed by those preoccupied with Turkey's role as a regional trade hub; but, like cars and the food and beverage industry, the most exciting sectors are those narrowly focused on the increasingly prosperous Turkish consumer.

Cement is one of the most promising. Foreign interest is rising, in anticipation of the sale of 11 state-owned companies, the results of which are expected to be announced before the end of the year. Faced with the new competition, the large domestic producers are pushing through their own modernisation plans to stay in touch.

"We come here to acquire market share," said Mr Pierre Conso, the former head of Société Ciments Français (SCF), during a visit to Ankara last year.

European cement concerns, stifled by a downturn in activity in their home markets, are looking to Turkey to boost their balance sheets. The strategy, as in the car sectors and the food and beverage industry where there has also been a surge of foreign interest, is to tap into Turkey's large and still relatively undeveloped local market.

"Turkey is one of the last European countries where we see real growth prospects," says Mr Claude Grinfeder, head of SCF's East European Division. "We didn't know the market, but we knew our product."

Production, at around 26m tonnes a year, is equivalent to the amount of cement sold in Spain or France. But more important, sales are growing at around 4-5 per cent, according to Adnan Ignebekdi, president of SCF's local Turkish company, Set Group Holding. Analysts, looking at the level of average annual consumption, believe the country still has a way to go.

"This growth will continue," says Hacı Sabancı, head of the cement division of the local Sabancı Holding Group, Turkey's largest privately owned industrial conglomerate.

Demand in the housing sector is rising, as home-owners try to hedge against rampant inflation. What is perhaps more surprising, the market for cement seems to have been little affected by the government's decision to cut back on public infrastructure spending.

The Turkish cement market tends to be highly regional. For example, it is not easy for producers in Izmir to break into the Istanbul market, as they discovered last year, during a brief price war. The cost of transport and the lack of a good road and rail system has proved a disincentive to competition, and helps to explain why small producers, with plants with less than optimum capacities, are able to survive. In Turkey, 80 per cent of sales are still made in sacks; the rest is bulk sales. In Europe the reverse is true.

Undoubtedly, part of the catalyst for all this activity was provided by the arrival of the big foreign players. Many of the local concerns were clearly taken by surprise. In some quarters, the issue provoked a chauvinistic reaction with industrialists openly voicing opposition to the policy of selling state assets to foreign groups.

Lafarge, in 1989 SCF, the French group, found itself caught in a legal dispute, after deputies took action in the courts to have the sale declared illegal, on the grounds that the companies had not first been offered to domestic buyers. Ironically the deputies were from the party of the current prime minister, Mr Süleyman Demirel, when he was still in opposition. Earlier this year, Mr Demirel was invited to preside over the opening of SCF's latest investment, a \$70m expansion of its clinker plant near Ankara - an irony not lost on local commentators.

Sabancı, Turkey's largest producer with around 15 per cent of the market, welcomes the foreign competition. Mr Hacı Sabancı says this has forced the local companies to diversify their product range and make investments which they might otherwise have postponed. Cement is now Sabancı's second most important business. Mr Sabancı is one of five brothers who run the holding company, believes the company will remain a force

to be reckoned.

"Italy was at the bottom of the world league table, and now they're the largest cement producer. The only thing in our minds is to how to achieve that sort of growth," he says.

The company is now examining some of the 11 companies slated for privatisation. "It's impossible to build a new plant, because of the cost of land."

Ten years ago, Ciments Français, the state company, controlled more than 50 per cent of the market. Today, privatisation provides the opening for a number of foreign groups to enter the Turkish cement market. In 1989, in the first round of sales, Ciments Français invested \$105m in the Turkish cement sector, buying five plants. In 1990, the company purchased a sixth and embarked on a major expansion into ready-mixed concrete, pre-fabricated products and aggregates. All the factories are located inland, another reminder of the fact that this is not an export business. The company says it has also spent \$42m on modernising the plants and installing environmental controls.

Following in its wake, Lafarge Coppee, the French group now the world's largest producer of building materials, acquired the Aslan Cimento company through a private share placement by the state-owned Isbank. The plant, one of Turkey's largest, with capacity of 1.5m tonnes, accounts for about 20 per cent of the key Istanbul cement market.

Lafarge has also bought a clinker plant near Ankara, and plans to use the site to build a full cement works in an area where the company estimates that there is still under-capacity. The company is now developing its presence in the ready-mix market, which industry officials say is growing by 25-30 per cent a year. The company bought into the Istanbul market, through its purchase of the local Ekmei Beton.

With the latest round of sales by the privatisation agency, an estimated 18 per cent share of the Turkish cement market is available. The French groups, SCF and Lafarge, have both made offers. Local municipalities have set up companies in order to be able to bid for the local cement factories.



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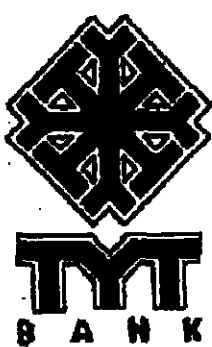
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TURKISH FINANCE, INVESTMENT AND INDUSTRY 6

The defence industry

Review follows as US cancels grants

THESE ARE trying times for Turkey's defence industry. After all the encouraging words for the country's robust role in the war against Saddam Hussein, Turkey can be forgiven for feeling a little let down by its allies.

As if an embarrassing tussle with German parliamentarians over the rules for the use of military aid equipment was not bad enough, worse was to come with the decision by the US Congress on October 6 to end the programme of grants for the Turkish defence effort.

Although Turkey was only a spectator - if a rather close one - the Gulf war did much to underline the shortcomings in mobility and firepower of its own armed forces.

Turkey has a number of joint defence collaborations with foreign companies. The priorities are well known - electronic warfare, real-time communication and mobility and agility. The broad challenge, as identified by Gen Dogan Gures, the chief of general staff, is not just to modernise the armed forces, but how to standardise the military's diverse supplies, which was one of the original arguments for pushing ahead with a homegrown defence industry.

The army, however, has had its differences with the civilian-run defence procurement agency (SSM). The question, as ever, is whether SSM, in its efforts to maximise the amount

of local production, is able to deliver what the generals really want.

Having once been the favoured industrial child of the former Motherland party administration, the Demirel coalition, too, seems to be less enthusiastic about SSM's procurement strategy.

Indeed, when the prime minister came to review progress

Congress's decision is a major setback, says John Murray Brown

on the various SSM projects at the start of the year, he was said to have been shocked by the size of the financing involved. He immediately called for the re-tender of a large military helicopter contract, to see whether it made sense to have an off-the-shelf purchase of a smaller number, rather than committing millions of dollars to a long-term industrial collaboration.

It was not just the financial imperatives that determined the need for a policy review of the defence programme. Mr Süleyman Demirel is under growing pressure to provide enhanced firepower for the military in its increasingly bloody fight with Kurdish separatists in the south-east of the country. In the event, Turkey awarded the contract to United Technologies, the long-running favourite with its Sikorsky Black Hawk multi-purpose helicopter. However, the contract called for an immediate delivery of 55, with the remaining 90 being built under a joint production arrangement.

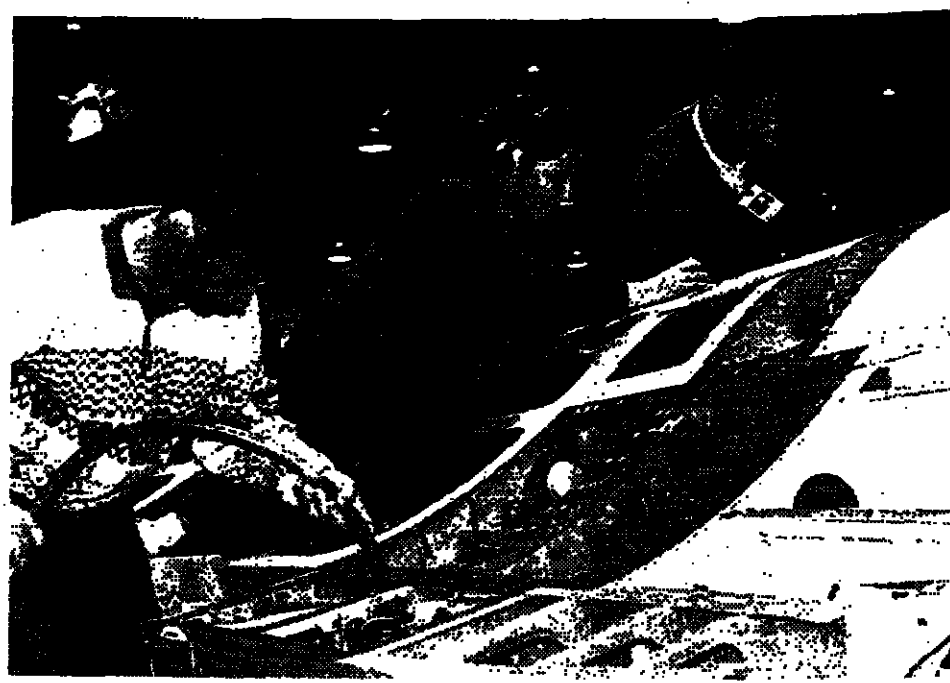
In other areas, too, the procurement agency has had its wings clipped. The armoured personnel carrier built in co-operation with FMC of the US is still having problems. The agency cancelled a contract awarded to Texas Instruments of the US for night-vision equipment for the vehicles, after disappointing trials in the US. There were also earlier

problems with the engine capability, and the gun.

Giat of France recently was awarded the contract to supply the 25mm gun and turret, after another wrangle with the Swiss over the supply of its Oerlikon gun, widely seen as the best product on offer. Berne earlier suspended all arm sales to Turkey over its Kurdish policy, a point which was not lost on the generals when it came to retendering for the gun.

Ironically, the latest move by the US Congress could provide ammunition for those in SSM, championing the cause of an indigenous manufacturing capability. Turks need little reminding of the time, after Turkey's invasion of Cyprus in 1974, when the US placed an arms embargo.

According to the foreign aid bill, Turkey, like other Nato southern-Bank countries, will now receive low interest credits. In 1992, the US pledged \$475m in grant form, the lion's share to be targeted at the F-16



The immediate casualty will be the F-16 jet fighter programme

Picture: Terry Kirk

jet fighter project. Earlier this year, Turkey signed a supply contract with Egypt, and is hoping to tap into the \$4bn Gulf Defence Fund, set up by the US and its Arab allies in the wake of the war against Iraq.

But the Congress decision clearly represents a major setback, and for many officials is seen as a harbinger of things to come in military relations

with the US. "Disappointing," was the conclusion of the Turkish foreign ministry. The decision "does not give the impression of a coherent policy," a ministry statement complained.

"We have to have a credible military force. In that sense, the congressional decision had a very negative impact on our ability to assume our new responsibilities," said a senior

Turkish diplomat.

The immediate casualty will be the F-16 jet fighter programme, which was heavily dependent on US funds under the Foreign Military Sales (FMS) programme.

In both 1988 and 1989, the Turkish treasury sought a refinancing of some of its outstanding credits under the FMS programme. A similar move is not ruled out today.

The continuing crisis with the Germans will further underline how Turkey is subject to the political whims of its first-world arms supplier. This dispute followed television pictures of the BTR-60 armoured personnel carriers being used to put down Kurdish demonstrations in March.

The BTR-60, a former East German weapon, was given to Turkey as part of the Conventional Arms in Europe disarmament agreement, whereby arms from the richer Nato partners would replace the older equipment of the poorer members - the so-called cascade effect. The German arms were to be used expressly for Nato defence purposes. The TV pictures therefore brought howls of protest, and led indirectly to the resignation of a German minister and the imposition of a ban on arms shipments to Turkey.

The issue came up again in last month, when Turkish newspapers carried pictures of a body being dragged on the ground by one of the BTR-60s. The crisis has now taken another twist, with the plans of the Turkish interior ministry to buy the same vehicle from the Russians. Mr Ismet Sezgin, the interior minister, was in Moscow in October finalising a deal which should allow the Turkish security forces to use the mixed stock of BTR-60s with impunity against the Kurds.

The Jewish community has made a big contribution to business life

Languages and contacts

IT WAS a rousing occasion - the Hebrew Chorus performed by the Turkish state opera company, before an audience of the best and brightest of Istanbul Jewry.

Vendit's Nabucco was just one event in 1992, in a state of celebrations to mark the 500 years since the Sephardic Jews were expelled from Spain by Ferdinand and Isabella, to find a new life in the Islamic world of Sultan Beyazit II.

"In impoverishing Spain," the Sultan is said to have remarked, "the expulsion will enrich Turkey."

Nowhere is this more true than in the business community, where Jews play a leading role in Turkish corporate life. From sectors like textiles, where they have traditionally been strong, to heavy industry, the 20,000-strong Jewish community has made a big contribution to Turkish business life. Equally successful, if less conspicuous, are those Jews who control much of the activ-

ity on Istanbul's Tahtakale money market. "Even today the rate for the dollar is still set by the Tahtakale. The Jewish wholesalers are the bankers of this country," says a producer of women's lingerie.

Just as the first arrivals in

'In impoverishing Spain, the expulsion will enrich Turkey,' said the Sultan

1492 brought the art of printing, and even cannon construction, to the Sublime Porte, the Jews today, with their language skills and their contacts in the markets of Europe and the US, have played an often pivotal role in the development of some

of the Turks' own groups.

In his memoirs, Mr Vehbi Koc paterfamilias of Turkey's biggest trading house, openly acknowledges the contribution to the company's success of two prominent members of the Jewish community - Bernar Nahum and Isak de Eskinazi.

Mr Nahum, who started his career with Ford Motor, was an invaluable partner when the young Mr Koc started his auto business, initially making the Anadol, before forming a joint venture with Fiat of Italy, an operation which dominates the Turkish car market today.

Others have emerged on their own. Mr Isak Alaton's Alarko Holdings is one of Turkey's most successful construction companies, building everything

from sewage plants for the Istanbul municipality to hotels in Moscow and other cities in the former Soviet Union. Another well-known name, Vitali Hakko, started his career making felt hats. Today he owns and runs Vakko, Turkey's leading fashion house.

It would be difficult to put a figure on their contribution to Turkey's economy. Certainly, personal fortunes have been made. The display of cosmopolitan elegance at the Ataturk Cultural Centre, in Istanbul, might have graced any opera house in London or Paris.

"It's very strange, but when the Ottomans were in Palestine, none of the Turkish Jews chose to leave," says Mr Silvyo Ovadya, editor of *Salom*, the

official newspaper of the Jewish community. *Salom* today publishes seven of its eight pages in Turkish. Before 1983, the paper was produced in Ladino, a medieval Spanish comprehensible to Cervantes but increasingly unknown to Turkey's younger generation of Jews.

"I think some of the businessmen are reluctant to drop the cult of the wandering Jew," says Jak Deleon, restaurant critic and professor of English at Istanbul's Bosphorus University.

Some habits are certainly difficult to break, like the weekly visit to Istanbul's only remaining kosher restaurant, now run by a Moslem Turk. In her documentary film, *Si je t'oublie Istanbul*, Nora Seni describes how



Isak Alaton heads one of the most successful construction companies

Istanbul's Jewish families still retreat to their large wooden houses on Büyükdade island, during the hot summer months. Many of the rich Jews prefer to fly to a south coast resort and sit in more stately splendour on their yachts.

"We're not a typical Jewish community," says Mr Jeff Camhi, of Profile, a leading con-

sumer electronics group. "We're from both worlds, Sephardic and Ashkenazic. In Britain there was a time when Jews were restricted from certain trades. In Turkey there has never been any restrictions."

There was, of course, the Varlik Vergisi - the infamous wealth tax imposed on the Jews and the other official minori-

ties, the Greeks and the Armenians, during the second world war, when an estimated 5,000 people were sent to labour camps for failing to pay the tax.

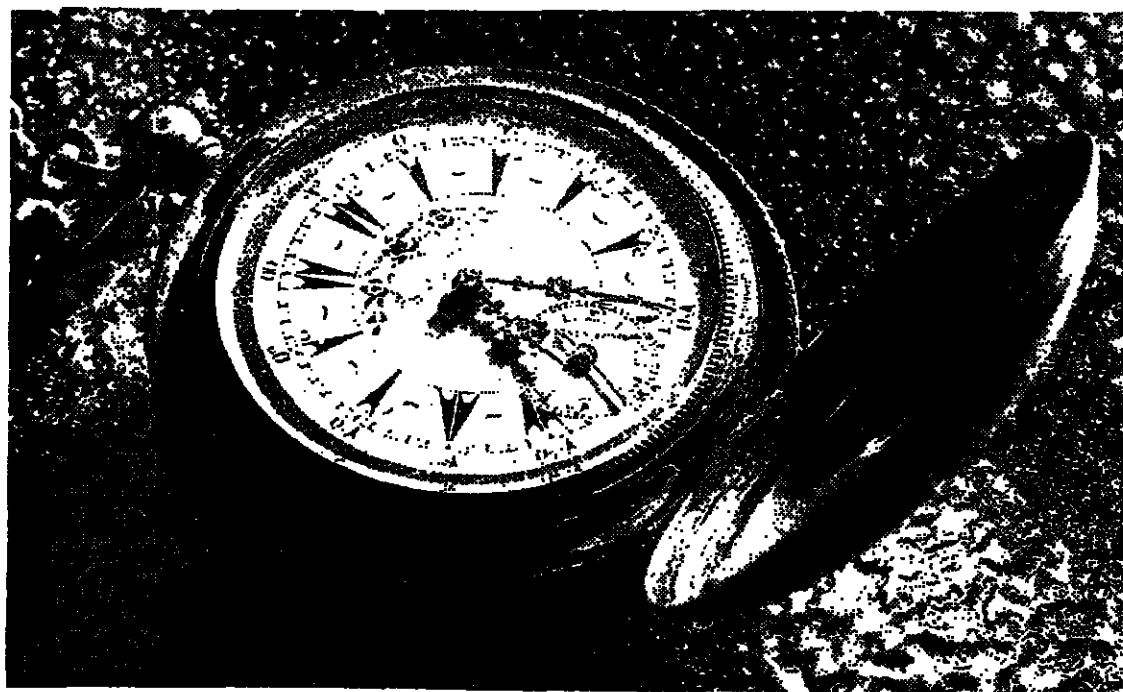
Ell Adman was one Jewish businessman who suffered as a result of the Varlik Vergisi, eventually leaving for the US. He later returned, and today runs Turkey's largest advertising agency, in partnership with J. Walter Thompson.

But the community remains particularly vulnerable to another shift in Turkish attitudes - this time perhaps a shift in Turkey's western orientation to play a more Islamic role.

Significantly, it is Mr Jak Camhi, Jeff's father, who is now a leading voice in the campaign to have Turkey accepted as a full member of the European Community, heading a business association which directly lobbies Brussels - so far without success.

John Murray Brown

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TURKISH FINANCE, INVESTMENT AND INDUSTRY 7

Privatisation: the government has set an ambitious target

Discord over use of revenues

PRIVATISATION of Turkey's state-run economic enterprises (SEEs) and of the government's participation in local companies is causing much debate and uncertainty.

The state has an interest in 235 enterprises, either as a majority shareholder, an affiliate or a minority partner in a privately-managed concern. There has long been agreement in principle that the SEEs are in need of reform, not least because of the heavy demands they make on the public spending borrowing requirement (PSBR).

Reform has also been seen to be in the interests of greater economic and financial efficiency and the promotion of wider share ownership.

But under the coalition government of Mr Süleyman Demirel, residual opposition to foreign ownership within the economy has been resurfacing.

Where the debate has become complicated is over the use of the money earned. The government wants earnings to help offset the budget deficit. Foreign bankers fear that money generated by the sales of government holdings is going into a "big black hole" and not being used for investment in productive assets. They express doubts about the long-term planning of the

authorities handling privatisation.

By contrast, the Public Participation High Council (PPHC), the decision-making and executive body of the privatisation programme, and the Public Participation Administration (PPA), the agency responsible for the planning and execution of the programme and entrusted with selling the state's shares in companies, feel that the earnings should not be used for offsetting the budget deficit.

Mr Ustün Sanver, the PPA's president, argues that the funds brought in could be put to more productive use - not least to convince the Turkish public and potential foreign investors that there are benefits in the privatisation of enterprises that have been, since the end of the 1920s, central to the economic philosophy of Turkey - state capitalism.

Confusion over the running of the privatisation policy was also reflected by the establishment this year by the new government of TTYök, an independent professional agency to restructure the 120 companies in which the state has a majority, in preparation for sale by private block sale or public offer. The intention was to depoliticise the privatisation

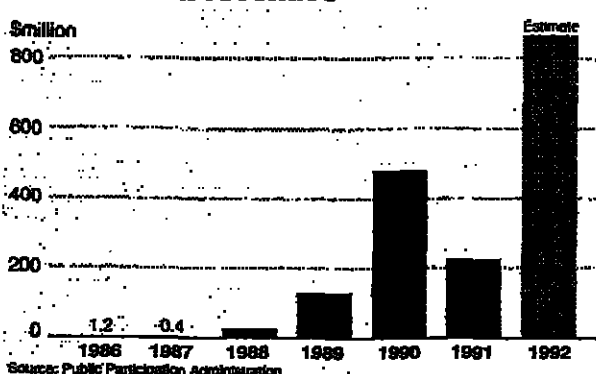
issue. However, TTYök has not yet received the legislation to operate.

The first steps towards disposal of SEEs came early in 1984. By the different methods of sales, the PPA records that, between July 1986 and July 1992, 26 companies were privatised by block sale amounting to \$144.1m. The majority were in the animal-feed, food-processing and beverages sectors.

Twenty-three companies privatised by public offering over the same period brought in \$401.6m. They were mainly concerned with heavier industries, including electricity production, cement, and motor manufacturing.

This year, the PPA is embarking on new tactics to speed up privatisation. According to Mr Sanver, negotiations should have been complete for the transfer of the most successful sector privatised - 11 cement companies - after a series of bid negotiations resulting in more than \$400m of sales. Along with completed selling of the state's stake in

Privatisation revenues



Source: Public Participation Administration

telecommunications companies

such as Netaş (49 per cent) and Teletas (18 per cent), and also in Sakerbank, Konya Şeker, a food-processing company, the vehicle manufacturers TOE, and a mining company IDC, this could all bring in \$753m this year. While this falls short of the projections, it does illustrate the fact that privatisation revenues for 1992 are not that far short of total revenues accrued during the previous

six years.

Whereas, previously, there was a protracted series of bidding rounds, in future a minimum acceptable appraisal value is to be announced. Block sale would then be awarded to bids above or close to that value.

In the first three months of next year, under this new pattern it was hoped to complete the sell off of three companies in the agro-industry sector:

SEK (dairy products), EBK (fish and meat processing) and 25 country-wide animal feed plants. But Mr Sanver said last month that, "as a technician", he did not think their privatisation would be possible "in today's conditions".

Plans for 1993 include 17 companies, mainly in the food-processing and beverages sectors, but also in the automotive industries. The intention, under preliminary PPA studies for the 1994-98 period, is to target much larger undertakings. Under consideration are the state-operated iron and steel sector, the state-owned petrochemical, petroleum, refining and distribution sector, electricity production and distribution, and the state-owned banking sector. Over the next five years, the PPA said in a position paper last month, its target was to privatise at least 30 per cent of state shares and to generate approximately \$10bn.

The PPA is aware that there are battles to be fought on two

fronts, at least. The concept of the benefits of privatisation have to be sold to the public, and it has embarked on a series of country-wide seminars and conferences.

But beyond the exercise of persuading the Turkish public and foreigners that privatisation is worthwhile, there are local difficulties to be worked out. The PPA disapproves of the Treasury's plan to take 50 per cent from the sale of state holdings for current expenses (i.e., the budget deficit). It points out that it funds a considerable number of infrastructure projects.

The PPA is also aware that the search for greater efficiency through privatisation will lead to job losses. The PPA, the SSK (the state workers' social insurance agency) and the Treasury are conducting separate studies of how to provide retraining and relocation for displaced workers.

There remain some acute and perennial problems. The costs of the existing SEEs to the PSBR, as a proportion of the GNP, remains high and is a drain on the budget. This is where the argument comes in that income from privatisation should help offset this deficit.

The whole programme,

especially as it moves into the bigger privatisation proposals for heavier industry, is also limited by the ability of the Istanbul stock exchange to sustain large-scale flotation of state-owned assets. The PPA is proposing the establishment of a savings fund, based on the wages and salaries of workers, which could be invested in debt securities. In return, these could be invested in the most successful privatised shares. This would, in theory, help to make people aware of the benefits of privatisation and sound shareholding.

But the privatisation programme remains under intense discussion. Indeed, as its status and evolution is debated by different branches of the government, doubt becomes apparent about commitment to pursuing the policy fully.

Mr Demirel, at a conference last month, caused some confusion by acknowledging that it had to be carried through, with the priority given to the most salable sectors. It was a statement which muddled the privatisation policies' priorities and which tended to underline his lack of conviction on the issue.

Anthony McDermott

THE APPETITE of Turkey's state-owned enterprises for funds is widely acknowledged as a threat to the stability of the economy, yet the politicians have been unable to come up with a solution.

The state has a stake in 235 enterprises, ranging from public utilities, basic metals and mining, to trading houses and department stores. Total losses of all the state-owned corporations come to around \$3bn, or 2 per cent of gross national product.

The financing of these losses, generally through printing new money, has added to the burden on the budget, and is estimated at around 4 per cent of GNP. In addition to the financial losses, their share of gross fixed investment, while declining, is still about 16 per cent of the total, concentrated in the sectors of energy, transportation and telecommunications. Their demand for funds crowds out other borrowers, and, in cases where they receive support direct from the treasury, adds to the fiscal imbalance. Employment is

close to 600,000 and has risen in recent years, despite declining financial performance.

The initial task for any government is how to convert these concerns into joint stock companies under Turkey's commercial code. Regulatory reform, particularly in the utilities, and other sectors enjoying natural monopolies, needs to be enhanced. Without such measures, any future reorganisation will only become much more costly.

Regulatory reform, particularly in the monopoly sectors, needs to be enhanced

Economists say a political, as well as a business, decision has then to be made as to which are to be privatised and which closed down. The government is said to be considering continuing out the management of privatisation; however, this does not address the need for a political commitment to decide the fate of these state-sector companies.

John Murray Brown on the problem of state-owned enterprises

Printing money to meet the loss

Efficiency, manning levels, quality of management in all these areas the state businesses have fallen woefully behind the private sector. A World Bank report on the sector suggested the main problem was that the companies are "not run as commercial enterprises but as government departments".

Under their articles of association, many have inherited conflicting tasks. Take Tekel, the state tobacco monopoly, which is directly controlled by the finance and customs ministry - indeed, its chairman, Mr Mehmet Akbay, is a former tax expert at the ministry.

Tekel not only has 80 per cent of the cigarette market, it also has a statutory obligation to buy tobacco from the farmers at a subsidised price set by government.

In the late 1980s, in the face

of market liberalisation and the arrival of foreign imports, the company invested heavily in new product lines. Its 2000 brand of blended cigarette is still more successful than the imported Marlboro product. Indeed, imports have fallen recently. However, Philip Morris is now investing in a plant in Turkey, and, under new investment rules, once production reaches 2,000 tonnes, will be able to market and distribute its own product, and eat into Tekel's market share.

Perhaps even more than the liberalisation of the sector, Tekel is suffering from the burden of its price support activities. Like many state companies, it has built up stocks, incurring warehousing fees and tying up badly needed working capital.

Large inventory accumulation is a feature of many of the

agriculture-based state economic enterprises, partly as a result of the abundant harvest in 1990, but to a larger extent because of the generous levels of support prices, which are typically well above world levels. Clearly, any reform of the farm-based state enterprises will have to go hand in hand with changes in the subsidy policy, which for so long has been seen as a universal cure for an ailing agricultural sector.

Mr Süleyman Demirel, the prime minister, has proved equivocal on the state-sector issue. He publicly acknowledges the need for reform. Yet his only contribution so far has been to bail out Metas a private-sector iron and steel company. In effect, Metas's debts to state-owned banks were converted to equity. The state has thus taken a new

stake in a troubled private concern, a policy favoured in the import substitution years before 1980, but which led to the plethora of minority stakes in so many private companies today.

On the fate of Zonguldak, the loss-making, hard coal company on the Black Sea, Mr Demirel says it will be impossible to close it down. The mine employs 50,000 people, and there is little alternative work in the area. Mr Demirel's Social Democrat coalition partners might be even less inclined to consider closure of state companies like Zonguldak, which have traditionally provided the party a steady supply of votes.

The issues are gargantuan. First, the companies need to adopt the disciplines of the market-place. At present, not being subject to the commer-

cial code, their performance is not subject to the provision on bankruptcy. Managers are civil servants, and earn civil servants' salaries, which has proved a disincentive in attracting quality personnel.

Economists say pricing is too often related to political decisions. For example, in the run up to the election in 1991, the Motherland party government restrained prices in a bid to hold back inflation in the weeks ahead of polling day.

The minister wants to set up a new agency to handle the restructuring of these companies

The dramatic 11 per cent increase in January was largely a measure of the price increases which state enterprises had to make to cover their deficits. Their accounting methods also leave a lot to be desired. Moreover they have tended to disguise their dismal financial performance by making deferred payments, arrears

and, in the case of the grain procurement board TMO, looking to the central bank to fund their activities. In many cases the problems of the state sector banks relate to the non-performing loans extending to the state sector enterprises.

Mrs Tansu Ciller, the economics minister, is pushing, so far with little success, to set up a new agency to handle the restructuring of these companies. Critics of her proposal say it would merely create another layer of bureaucracy, and would still not address the fundamental issue of whether there is the political commitment to shake up the state sector. However, the OECD, in its latest report on the Turkish economy, welcomed the move.

Some companies are making efforts to ready themselves for privatisation. Turk Hava Yolları, the national airline, for example, is now looking at its fleet sizes and yields, and is planning strategic alliances. But in general the public sector appears to be drifting further into trouble.

John Murray Brown

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Comparisons made with banks with large branch networks

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TURKISH FINANCE, INVESTMENT AND INDUSTRY 8

Broadcasting: technology has made the old laws irrelevant

A new channel every month

IN THE past three months, Ahmet Ozal, the 36-year-old son of Turkey's president, has spent between \$20m and \$30m on launching a new television channel.

Every now and then, questions are asked about how he put together this money. His answer — by successful use of bank credits and oil trading — is as striking as the phenomenon he has come to symbolise, the explosion taking place in Turkey's air waves.

The young Ozal's new venture, Channel 6, is his second foray into television. In 1990, he was one of the founders of Star, the first private channel in Turkey; and, although he and his partners later split up, his initiative carved a route which others have since followed.

In 1989, there were a mere three channels, all run by the Turkish Radio and Television Corporation (TRT). Today there are 11, with new channels being launched at a cur-

rent rate of one a month. This "media shock", as it is dubbed by Jeff Medina, president of the prominent advertising agency, Manajans/Thompson, means that the number of private channels has already reached six, while the five state channels include one broadcasting to the Turkic Republics of Central Asia.

Emine Usakligil explains how satellites have provided the loophole that has been exploited and led to 'media shock'

This rapid growth is not the result of deregulation. Instead, technology has made the laws of the past irrelevant. The 1982 Constitution gives the TRT a monopoly on establishing television and radio stations; but, under a 1924 law, all telecommunications services in Turkey are the exclusive preserve of the Turkish PTT.

As now interpreted, this means that the PTT alone has the right to operate landlines and telecommunications satellites serving Turkey, and it is the PTT which leases channels and transponders from Intelsat and Eutelsat and which controls licenses for TVROs. The TRT's eight transmitter directorates are connected to the PTT which established a Radio and Television Department in January 1989.

However, neither the PTT nor the TRT can stop broadcasts from satellites with a footprint covering Turkey — and this is the loophole exploited by Turkey's new channels. The present government has promised to amend the constitution and law to allow private-sector broadcasting.

In common with many promised areas of reform, progress has been slow. But, as one television executive says: "The present situation suits all the present players. The government has more potential control over us than it would if clear regulation existed. The broadcasters are able to proceed without interference, with several potential new entrants discouraged."

Most prominent among those waiting for a clearer legal structure is the planned joint venture of Turkey's Koc Group and Time Warner. Apart from Show TV (a joint venture of the banker Erol Aksöy and Hurriyet and Sabah newspapers), those already in the field are the Uzan family's Interstar and Teleon HBO, in joint venture with the Has Group; Ahmet Ozal's Channel 6; and Istanbul Municipality's BRT. In radio, a similar mushrooming has occurred. In the provincial city of Denizli alone, four small radio stations have been set up.

All this means that Turkey's viewers no longer have to rely on the sedate diet fed to them by the TRT. Instead, the new channels offer a glib reflection of the consumer society which has burgeoned in Turkey's major cities.

They are pushy, slick and dominated by dubbed US programmes and quiz and talk shows. Local programming is limited. This is particularly so in news and current affairs, where Show TV's fortnightly 32nd Day, produced by Mehmet Ali Birand, stands head and shoulders above the dull rest. Educational programmes and documentaries are conspicuous by their absence.

However, doubts exist about the financial viability of many of the stations. Few controlled their set-up costs, and now there are too many stations fighting for the advertiser's dollar. Even if it is rising fast, per capita advertising expendi-

ture is a mere \$10-12 a year, compared with \$150-200 in western Europe.

In this situation, advertisers are beginning to become selective. Rating agencies, though inadequate, confirm that Show leads the field with over 25 per cent of the audience, followed by Interstar, with Channel 6 attracting less than 10 per cent.

Stations like Interstar seem to depend largely on in-group advertising, and zapping has become the bogy of the moment. The advertising world has suddenly woken up to the way that viewers are no longer sitting passively when the commercial break comes, but switching from channel to channel.

The dynamism in this area is not yet matched where cable television is concerned. A cable television infrastructure was to be completed by July 1992, connecting 2m subscribers in 10 cities. Today, less than 30,000 homes are connected.

The surge in television advertising has hit the newspaper industry. In the first nine months of 1992, this received 52 per cent of the advertising expenditure, compared with 57 per cent in 1990. Overall circulation and readership remain among the lowest in western Europe. However, the division between television and newspaper companies is becoming progressively blurred.

Sabah, a founding partner in Show, is now establishing its

own channel, Satel. Hurriyet, also a founding partner in Show, has established its own production company. Of the major newspapers, only Milli-yet has yet to declare its interest or show its hand. For the smaller newspapers, the outlook is bleak. Advertisers are being increasingly offered cross-media packages. As a result, small may be beautiful, but it is also progressively lonely. Meanwhile, a telemarketing channel is about to be launched — by Ahmet Ozal.

□The author of this article, formerly managing director of Cumhuriyet newspaper, is now managing director of IF film production and distribution agency.



And when they get bored, there's limitless television waiting at home

Picture: Terry Kirk

Patent: the pharmaceutical industry is impeding progress towards a new law

EC partners and US apply pressure

MORE THAN 40 years after the first draft was prepared, Turkey is still struggling to put a modern patent law on to the statute books. Today the issue is back on the agenda, with legislators under growing pressure from both the US and the European Community, and from a government publicly committed to meet the standards set by the country's trading partners.

The sticking point, as ever, is the question of pharmaceuticals, an industry which depends vitally on patent. Battle lines are now drawn between the foreign multinationals keen to protect their inventions, local drug companies fearful of losing market share, and a health ministry concerned to contain drug costs.

Drug patent remains a sensitive issue, even in developed countries. In Turkey, the commercial interests of the foreign drug companies seem increasingly at odds with the health needs of the broad mass of the population, at a time when the state-run health insurance scheme is all but bankrupt.

The debate might seem somewhat academic when you consider the number of

products which will be directly affected by the legislation. In a Turkish market worth around \$1bn in 1991, patentable drugs account for only around 20 per cent of sales; and besides, the law would not affect products already on sale. According to one calculation, the introduction of a patent law would result in price increases of around 250m. The foreign drug companies insist that this is not a financial question.

They point out that, of the 72 patentable products, 24 are currently being imitated by 200 locally produced generics, the cheap copies of off-patent brand name products. This pirated trade represents less than 7 per cent of total sales.

The drug companies' case is that patent is necessary to encourage invention. The protection provides a brief and well-earned monopoly for the inventor. Without it, the research base on which the industry's future depends is endangered. Patent could also stimulate an indigenous research effort. "They all have research and development units, yet all they do at the moment is reformulate someone else's products," says

one somewhat aggrieved drug executive.

"The law was prepared for Turkey and not to please anyone else," says a leading member of the government commission set up to prepare what will be the first revision of a 1879 patent law. Nonetheless, the international pressure to address the issue is growing. The US has not ruled out resorting to powers

The commercial interests of foreign drug companies seem at odds with the health needs of the population, at a time when the state-run health insurance scheme is all but bankrupt

provided under the 301 clause of the 1969 Trade Bill, which could affect Turkey's preferential trade tariffs on textiles and other key exports.

Mrs Tansu Çiller, the economic minister, discussed the issue with Ms Carla Hills, the US Trade Representative during a visit to Washington earlier this year. EC officials are insisting that patent legislation is part of Turkey's commitment to provide free movement of goods and services under Ankara's 1963 association agreement with

the Community.

With the draft now going the rounds of ministers and committees, the lobbying has become frenetic. At a conference in June, Dr Alberto Aleotti, chairman of the International Pharmaceutical Producers Union, was invited to present the case for patent.

Turkey, he said, "has great market potential in Asia and the Middle East, but cannot

penetrate these markets with copied products."

In Ankara, in October, the presidents of the Austrian and Bulgarian patent offices, among others, spoke on the issue at a seminar organised by the Trade and Industry Ministry — an exercise to steel the nerves of Turkish lawmakers before the draft goes to parliament.

Mr Tahir Kose, the trade minister, promised the package would be passed by the end of the year. The draft, however, appears to be stuck

in the State Planning Organisation. Moreover, much to the annoyance of the foreign concerns, the SPO, in alliance with the health ministry and the powerful local drug concerns, has introduced the new concept of a transition period for the application of the law.

"In effect, the Turkish industry has already had a transition period of 32 years. If that is not enough, they will never catch up," says one aggrieved foreign producer.

"If you're planning to be present in the international market, you have to have a patent law," says Mr Ayhan Suskun, head of the pharmaceutical division at Eczacibasi.

"But the important point is, how soon." Eczacibasi is said to be one of the main companies lobbying for a transition period, which might seem somewhat curious given that 70 per cent of the company's turnover is made up of drugs produced under license with foreign partners.

Patent lawyers are even arguing about different transition periods for process and product patent, but foreign companies say this misses the point. The issue,

they say, is to provide pipeline protection, a concept adopted in bilateral patent accords between the US and some of its trading partners. The idea is to protect a product from the time the molecule is invented through the clinical trials to the moment the drug is finally approved by the public health authorities. At present, there is no such provision in the law.

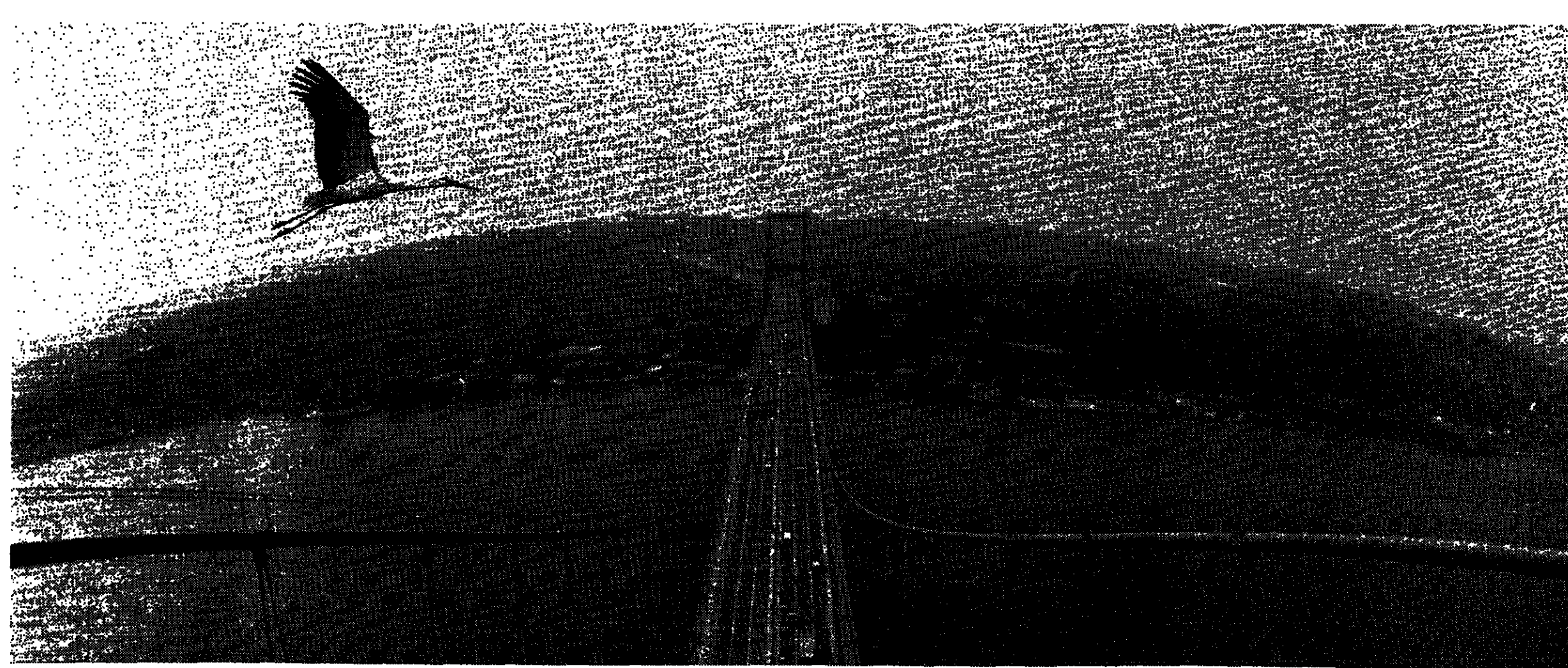
"When we submit molecules for registration, it may take another 10 years before we develop the product. What this new law implies is that no new molecules will be protected in Turkey for the next 22 years," says a US drug executive.

The other complaint is that Turkish legislation still makes no provision for clinical testing, which drug companies say is an essential step to encourage a domestic research industry.

The picture is fairly dismal. Patent lawyers, such as Kanan Dericioglu, now believe the law may get derailed even before it reaches parliament. Mr Dericioglu argues that it may be better to exclude pharmaceuticals altogether, to allow at least some form of patent legislation to go on the books. But as one foreign executive put it, more optimistically: "The government at least is now in a position to make the political choice."

John Murray Brown

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INSIDE

Peril on Tokyo's stock exchange

Tokyo The Nikkei average is at its lowest for three months, having lost nearly half the gains it made after the announcement in August of a government spending package to revive the economy. Charles Leadbeater warns that further falls on the exchange could have dire consequences for Japan's economy and its banks, while Emiko Terazono reports on fresh attempts to revive investor interest. **Back Page, Page 24**

Japanese watchmakers suffer Sluggish Japanese demand has hit half-year profits at Japan's two leading watchmakers, Seiko and Casio. At Seiko, pre-tax profits fell by 28.4 per cent on turnover down by 8.8 per cent, while at Casio profits fell 24 per cent despite a 3.5 per cent rise in sales. **Page 24**

Great Portland declines 7%

Profits at Great Portland Estates, the property investment company, fell 7.3 per cent from £17.52m to £16.24m for the six months to end-September. The company expects to maintain its dividend this year at 10p per share, but Mr Richard Peskin, chairman (left), warned investors of possible future cuts. **Page 28**

Telecom NZ raises dividend

Telecom NZ has unexpectedly lifted its dividend to 7.25 cents a share from 6.5 cents. Analysts said the company expected earnings to rise strongly in the second half following a review of services, cost structures, capital spending and revenue streams. Yesterday the company announced a 2.6 per cent increase in net profits for the first half. **Page 25**

Chile shoots ahead on fruit

New technologies and faster transport have helped Chile to emerge as the dominant fruit exporter of the southern hemisphere. A new study suggests further headway is likely during the coming decade, though it may be accompanied by rising protectionism, and intensified trade conflict in certain fruits. **Page 30**

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Chief price changes yesterday

FRANKFURT (DM)		PARIS (FF)			
Aldi	516	+ 13	Audi Export	729	+ 16
Aldi Pri	385	+ 25	Bos	353.3	+ 11.3
Anglo	443.5	+ 10	BSM	370	+ 10
Leifheit	380	+ 10	BSV	370	+ 10
Plafis	272	- 7	BSV	370	+ 10
Montepulciano	275	- 5	BSV	370	+ 10
Varta	275	- 5	BSV	370	+ 10
NEW YORK (\$)		TOKYO (Yen)			
Aldi	95 1/2	Aldi	350	+ 30	
BSF	36 1/2	Aldi	350	+ 30	
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NEW YORK prices at 12.30

LONDON (Pence)	BRIT AIRWAYS
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Matsushita falls 66% on lower sales

By Emiko Terazono in Tokyo

MATSUSHITA, Japan's biggest producer of consumer electronics, revealed the full extent of the fall in Japanese consumer demand when it yesterday announced a 66.6 per cent drop in profits.

Pre-tax profits for the half-year fell to ¥87.5bn (¥547.6m) from ¥197.48bn a year earlier. Sales fell 4.3 per cent to ¥3,510.7bn, the group's first sales decline in six years, from ¥3,670bn.

An increase in depreciation charges affected net profits, which fell 78.9 per cent to ¥16.4bn. Operating profits fell 87 per

cent to ¥87.5bn on foreign exchange losses. The announcement follows last month's parent company results, where pre-tax profits fell 51 per cent, and the company announced a 10 per cent cut in directors' salaries.

Matsushita was burdened with heavy losses at Matsushita Refrigeration, the fridge component maker, and JVC, the audio equipment affiliate. The group booked servicing costs of ¥8.1bn due to defects found in Matsushita Refrigeration's fridge compressors.

Other costs totalling ¥15.5bn included losses stemming from Matsushita's acqui-

sition of MCA of the US. Depreciation costs totalling ¥173.5bn, a 9 per cent increase.

The company said while domestic sales fell 7 per cent, overseas sales fell only 1 per cent. Sales of video equipment fell 13 per cent to ¥735.8bn, while audio equipment sales dropped 5 per cent to ¥287.5bn.

Sales of communication and industrial equipment was one of the few bright spots, rising 1 per cent to ¥841.6bn, while electronic components remained flat at ¥426.5bn.

The group's entertainment revenues fell 1 per cent to ¥281.2bn, where MCA posted

sales of ¥212.2bn, a 3 per cent drop. However, Matsushita said in dollar terms, MCA's sales rose 2 per cent.

The company spent ¥171.5bn on first-half capital investments, a 45 per cent fall, while research and development spending fell 2 per cent to ¥205bn.

For the full year to March, the Matsushita group has been forced to revise its previous projections down sharply due to severe domestic conditions. The company forecasts a 53 per cent fall in pre-tax profits to ¥170bn, from a previous projection of ¥358bn, on a 5 per cent drop in sales to ¥7,070bn, previously forecast at ¥7,500bn.

Tony Jackson on the details of Alan Sugar's offer to shareholders Weighing up the terms of Amstrad's 30p

IN the whole contentious history of management buy-outs in the UK, the most contentious issue is whether the founders of public companies should be allowed to take them private again.

Such cases always set up a particularly sharp conflict of interest. They therefore tend to create an odour of suspicion.

The offer for Amstrad from its founder Mr Alan Sugar, as detailed in this week's formal offer to shareholders, is among the most odorous of the lot.

The special features of the deal can be briefly enumerated.

None of Amstrad's directors can advise shareholders on the merits of the offer, as they all hope to carry on working for Mr Sugar when the deal has gone through.

No independent financial adviser has been employed on the shareholders' behalf. There is no forecast of Amstrad's profits.

Shareholders are told there is "little prospect of a significant regular dividend".

The offer is materially below Amstrad's stated asset value per share. It is also more than 60 per cent below the level at which Mr Sugar sold a 7.5 per cent stake in the company 18 months ago.

The value of the offer - £113m (£171m) - is almost precisely equal to Amstrad's net cash in its latest balance sheet.

Nearly half of that cash is being advanced as an interest-free loan from Amstrad to Mr Sugar.

Perhaps, on reflection, this last point is not as odd as it looks. As a big London institution shareholder, Mr Sugar is not a normal company being bought out normally ends up paying for the deal

in the long run. It is merely unusual to see the fact so candidly divulged at the outset.

The rest of the document bears this view out. The loan from Amstrad to Mr Sugar will eventually be repaid by dividends from Amstrad itself.

Most of the rest of the purchase price is in the form of a £48m loan from Lloyds Bank. That loan is to be repaid by next June.

Once again, the funds are to come from Amstrad.

If they felt philosophical, Amstrad's shareholders might view the loan to Mr Sugar in another light.

The £50m cash is going from Amstrad's coffers via Mr Sugar into their own pockets. It is therefore not so much a loan as the proceeds of a partial liquidation. How philosophical they feel may be another matter. Most will feel some disquiet over the way the 30p offer price is justified to shareholders.

The crucial point is contained in a letter to the Amstrad board from Kleinwort Benson, the company's financial adviser.

According to the accountants Touche Ross, Kleinwort says, Amstrad shareholders would be likely to get less than 30p per share if the company were wound up, in spite of the fact that net assets on the balance sheet four months ago were worth 46p a share.

In arriving at that conclusion, Touche Ross did not carry out an audit, nor did it visit Amstrad's subsidiaries. In assessing the prospects for the group, it relied on assurances from Mr Sugar and the rest of the board.

The nature of such assurances may be gauged from the offer document. Amstrad, Mr Sugar tells shareholders, has no blockbuster products on the way. It is a "me too" competitor. It has to be streamlined.

"While no detailed plans exist," Mr Sugar says, "I am clear that such action could result in a much smaller company."

In assessing the offer, shareholders might reflect that not all buy-outs are a bargain for management.

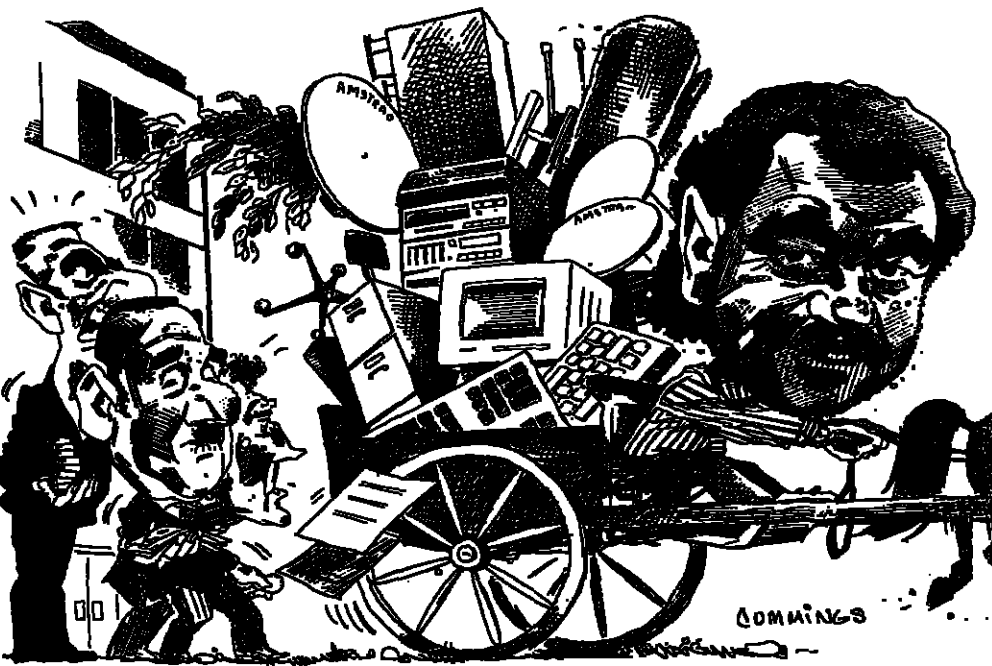
In 1989 Magnet, the DIY and furniture chain, was bought out in a hotly controversial £800m deal. It was rapidly apparent that the directors had paid vastly too much.

They lost their investment accordingly and some of them their jobs.

Nevertheless, the Amstrad deal may not be a foregone conclusion.

An investing institution said yesterday: "This could be a case for shareholders digging their heels in, if only as a matter of principle."

Lex, Page 20



Competitive market needs a blockbuster PC product

By Paul Taylor in London

SINCE Amstrad launched its first personal computer, the PC 1512, in 1984, the PC market in the UK and elsewhere has changed dramatically and Amstrad - the quintessential "pile them high, sell them cheap" electronics success story of the 1980s - has failed to keep pace.

Driven by technology and fierce competition, PC prices have been falling - wiping out Amstrad's price advantage.

The wide availability of low-cost components has spawned a flood of PC market entrants. "It is not the same market that Amstrad launched into and pioneered, now everyone and his mother can produce a low-cost package," says Mr Jerry Sanders, executive editor of Ziff-Davis' PC Magazine.

Amstrad can still boast a large installed base, but brand loyalty

has evaporated. It has also lost out to a new breed of PC manufacturers such as Dell in the US and Elonex in the UK which sell direct to their customers.

Mr Michael Spiro, finance director of north-London-based Elonex, emphasises that with today's wafer-thin margins, PC manufacturers have to sell direct to retain control of overheads. Just as important, direct sales keep a company in touch with its customers. "In the indirect channel you offer what is available, not what is wanted," says Mr Spiro.

Amstrad faces formidable competition in both business and home markets. In the past six months even IBM and Compaq have launched cut-price "clones" of their own.

As Mr Sugar acknowledges, Amstrad is a "me-too" competitor. It needs a new "blockbuster" product. It is difficult to see Amstrad coming up with one.

Recession and fares war take British Airways down 23%

By Paul Belts, Aerospace Correspondent

BRITISH AIRWAYS, the world's most profitable airline, has not escaped the combined effects of recession and the fierce airlines fares war which led to a 22.7 per cent fall in second-quarter pre-tax profits.

Lord King, BA chairman, warned yesterday that prospects for the financial year ending March 1993 remained "uncertain".

Although pre-tax profits for the first half rose 22.7 per cent to £227m (£344.6m), second-quarter earnings tumbled to £136m from £176m in the same quarter last year. This was below City of London expectations and BA shares fell 8.5 per cent to close 33p lower at 249p.

Sir Colin Marshall, chief executive, said second-quarter profits were affected by the absence of aircraft disposals, which produced a £25m gain in the same period last year, as well as a £16m negative swing on currency exchanges and a £8m loss on the start-up costs of the airline's new German subsidiary, Deutsche BA. Excluding these factors, second-quarter operating profits showed a modest 2.4 per cent increase to £169m.

Although disappointed by the second-quarter figures, Lord King said the performance was strong compared with other carriers when international airlines are forecasting a loss of more than £2.5m this year.

"While we continue to achieve results which are the envy of our competitors, we like them, have suffered from the effects of the recession," he added.

Although BA continued to experience overall traffic

growth, Lord King said the airline did not expect to see an increase in high-yielding business and first-class travel until the world economy recovers.

BA carried 13.7m passengers on scheduled services in the first half, a 9.7 per cent increase over last year. But passenger yield - the average price paid per passenger for each kilometre flown - fell almost 6.8 per cent because of the weakness in premium traffic, aggressive pricing in the industry and the relative strength of sterling during the period.

Turnover in the first half increased 7.6 per cent to £2,989m. Profits after tax in the first half rose 19.7 per cent to £182m while per-share earnings rose 17.1 per cent to 24.7p. The interim dividend was increased 4.1 per cent to 3.06p.

Lex, Page 20; Details, Page 28

Provisions put ANZ into loss

By Kevin Brown in Sydney

AUSTRALIA and New Zealand Banking Group (ANZ) yesterday surprised the markets by announcing net losses of A\$578m (US\$400m) for the year to the end of September, after provisions of A\$1.9bn against bad debts.

Mr John Gough, chairman, said the write-offs followed a rigorous review of provisioning policy by Mr Don Mercer, who took over as chief executive six weeks ago.

The result was in stark contrast to the interim profit announcement in May, when the bank reported a net profit of A\$171m, and forecast an improvement in the second half.

Last year the bank made net profits of A\$287.3m after bad debt provisions of A\$1.04bn.

Mr Gough said the tougher

approach to provisioning followed a reassessment of economic prospects by the new management, which was much less confident of the prospects for growth in the sluggish Australian economy. However, he said the high level of provisions had not been prompted by the tough action taken by Westpac Banking Corporation, which wrote off A\$2.7bn against bad debts at the half-way stage.

Mr Gough said the write-offs had "cleared the decks". He forecast "a reasonable profit recovery in the current year, and a progressive improvement in ANZ's performance over the next two to three years".

ANZ shares, which traded at up to A\$2.63 before the announcement, closed unchanged at A\$2.58, partly in response to the

final dividend of 10 cents, making an unchanged total of 20 cents.

The shares were also supported by announcements from Moody's and Standard & Poor's, the US credit rating agencies, which said the result would have no effect on the bank's credit ratings.

ANZ said its international, New Zealand and Australian retail operations remained profitable. The Australian business banking division reported a net loss of A\$797m.

Most of the division's problems are in the manufacturing state of Victoria. The board said 70 per cent of specific provisioning of A\$1.4bn against non-accrual loans related to Victoria.

In addition to the specific provisions, the bank also boosted its general provision fund by A\$397m to A\$556m.

US\$100,000,000 One Year Oil Financing Facility

Provided and structured by
Al Rajhi Banking and Investment Corporation
Arranged by
ANZ Grindlays Bank plc, London
International Merchant Banking

for
Pakistan State Oil Pakistan Burmah Shell
National Refinery
Local Syndicate Members
ANZ Grindlays Bank
Citibank N.A. Standard Chartered Bank

ANZ

October 1992

Notice of Mandatory U.S. \$20,000,000 Redemption

out of:

U.S. \$100,000,000

Lloyds Eurofinance N.V.

1 1/2 per cent. Guaranteed Bonds due 1994

Unconditionally and irrevocably guaranteed on a subordinated basis by



NOTICE IS HEREBY GIVEN that pursuant to Condition 8(a) of the Bonds, U.S. \$20,000,000 principal amount of the Bonds has been drawn for redemption at their principal amount.

Payments of principal will be made in accordance with Condition 5 of the Terms and Conditions of the Bonds on or after 30th December, 1992 at the specified office of any of the Paying Agents who are listed in the Terms and Conditions of the Bonds, against surrender of the Bonds with all unmaturing Coupons attached, failing which the face value of any missing unmaturing Coupon will be

deducted from the payment. Any amounts of principal so deducted will be paid against surrender of the relevant missing Coupon within a period of six years from the date mentioned on the Coupon. Accrued interest due 30th December, 1992 will be paid in the normal manner against presentation and surrender of Coupon No. 10 on or after 30th December, 1992. Interest on the Bonds drawn for redemption will cease to accrue from 30th December, 1992.

Serial numbers of the U.S. \$1,000 denomination Bonds drawn are as follows:-

12	726	1486	2177	2907	3636	4365	5095	5825	6555	7285	8015	8745	9475	10205	10935	11665	12395	13125	13855	14585	15315	16045	16775	17505	18235	18965	19695	20425	21155	21885	22615	23345	24075	24805	25535	26265	26995	27725	28455	29185	29915	30645	31375	32105	32835	33565	34295	35025	35755	36485	37215	37945	38675	39405	40135	40865	41595	42325	43055	43785	44515	45245	45975	46705	47435	48165	48895	49625	50355	51085	51815	52545	53275	54005	54735	55465	56195	56925	57655	58385	59115	59845	60575	61305	62035	62765	63495	64225	64955	65685	66415	67145	67875	68605	69335	70065	70795	71525	72255	72985	73715	74445	75175	75905	76635	77365	78095	78825	79555	80285	81015	81745	82475	83205	83935	84665	85395	86125	86855	87585	88315	89045	89775	90505	91235	91965	92695	93425	94155	94885	95615	96345	97075	97805	98535	99265	99995	10000
13	738	1478	2178	2908	3638	4368	5098	5828	6558	7288	8018	8748	9478	10208	10938	11668	12398	13128	13858	14588	15318	16048	16778	17508	18238	18968	19698	20428	21158	21888	22618	23348	24078	24808	25538	26268	26998	27728	28458	29188	29918	30648	31378	32108	32838	33568	34298	35028	35758	36488	37218	37948	38678	39408	40138	40868	41598	42328	43058	43788	44518	45248	45978	46708	47438	48168	48898	49628	50358	51088	51818	52548	53278	54008	54738	55468	56198	56928	57658	58388	59118	59848	60578	61308	62038	62768	63498	64228	64958	65688	66418	67148	67878	68608	69338	70068	70798	71528	72258	72988	73718	74448	75178	75908	76638	77368	78098	78828	79558	80288	81018	81748	82478	83208	83938	84668	85398	86128	86858	87588	88318	89048	89778	90508	91238	91968	92698	93428	94158	94888	95618	96348	97078	97808	98538	99268	99998	10000
14	750	1490	2190	2910	3640	4370	5100	5830	6560	7290	8020	8750	9480	10210	10940	11670	12400	13130	13860	14590	15320	16050	16780	17510	18240	18970	19700	20430	21160	21890	22620	23350	24080	24810	25540	26270	27000	27730	28460	29190	29920	30650	31380	32110	32840	33570	34300	35030	35760	36490	37220	37950	38680	39410	40140	40870	41600	42330	43060	43790	44520	45250	45980	46710	47440	48170	48900	49630	50360	51090	51820	52550	53280	54010	54740	55470	56200	56930	57660	58390	59120	59850	60580	61310	62040	62770	63500	64230	64960	65690	66420	67150	67880	68610	69340	70070	70800	71530	72260	72990	73720	74450	75180	75910	76640	77370	78100	78830	79560	80290	81020	81750	82480	83210	83940	84670	85400	86130	86860	87590	88320	89050	89780	90510	91240	91970	92700	93430	94160	94890	95620	96350	97080	97810	98540	99270	99999	10000
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17	786	1526	2226	2916	3646	4376	5106	5836	6566	7296	8026	8756	9486	10216	10946	11676	12406	13136	13866	14596	15326	16056	16786	17516	18246	18976	19706	20436	21166	21896	22626	23356	24086	24816	25546	26276	27006	27736	28466	29196	29926	30656	31386	32116	32846	33576	34306	35036	35766	36496	37226	37956	38686	39416	40146	40876	41606	42336	43066	43796	44526	45256	45986	46716	47446	48176	48906	49636	50366	51096	51826	52556	53286	54016	54746	55476	56206	56936	57666	58396	59126	59856	60586	61316	62046	62776	63506	64236	64966	65696	66426	67156	67886	68616	69346	70076	70806	71536	72266	72996	73726	74456	75186	75916	76646	77376	78106	78836	79566	80296	81026	81756	82486	83216	83946	84676	85406	86136	86866	87596	88326	89056	89786	90516	91246	91976	92706	93436	94166	94896	95626	96356	97086	97816	98546	99276	99999	10000
18	798	1538	2238	2918	3648	4378	5108	5838	6568	7298	8028	8758	9488	10218	10948	11678	12408	13138	13868	14598	15328	16058	16788	17518	18248	18978	19708	20438	21168	21898	22628	23358	24088	24818	25548	26278	27008	27738	28468	29198	29928	30658	31388	32118	32848	33578	34308	35038	35768	36498	37228	37958	38688	39418	40148	40878	41608	42338	43068	43798	44528	45258	45988	46718	47448	48178	48908	49638	50368	51098	51828	52558	53288	54018	54748	55478	56208	56938	57668	58398	59128	59858	60588	61318	62048	62778	63508	64238	64968	65698	66428	67158	67888	68618	69348	70078	70808	71538	72268	72998	73728	74458	75188	75918	76648	77378	78108	78838	79568	80298	81028	81758	82488	83218	83948	84678	85408	86138	86868	87598	88328	89058	89788	90518	91248	91978	92708	93438	94168	94898	95628	96358	97088	97818	98548	99278	99999	10000
19	810	1550	2250	2920	3650	4380	5110	5840	6570	7300	8030	8760	9490	10220	10950	11680	12410	13140	13870	14600	15330	16060	16790	17520	18250	18980	19710	20440	21170	21900	22630	23360	24090	24820	25550	26280	27010	27740	28470	29200	29930	30660	31390	32120	32850	33580	34310	35040	35770	36500	37230	37960	38690	39420	40150	40880	41610	42340	43070	43800	44530	45260	45990	46720	47450	48180	48910	49640	50370	51100	51830	52560	53290	54020	54750	55480	56210	56940	57670	58400	59130	59860	60590	61320	62050	62780	63510	64240	64970	65700	66430	67160	67890	68620	69350	70080	70810	71540	72270	73000	73730	74460	75190	75920	76650	77380	78110	78840	79570	80300	81030	81760	82490	83220	83950	84680	85410	86140	86870	87600	88330	89060	89790	90520	91250	91980	92710	93440	94170	94900	95630	96360	97090	97820	98550	99280	99999	10000
20	822	1562	2262	2922	3652	4382	5112	5842	6572	7302	8032	8762	9492	10222	10952	11682	12412	13142	13872	14602	15332	16062	16792	17522	18252	18982	19712	20442	21172	21902	22632	23362	24092	24822	25552	26282	27012	27742	28472	29202	29932	30662	31392	32122	32852	33582	34312	35042	35772	36502	37232	37962	38692	39422	40152	40882	41612	42342	43072	43802	44532	45262	45992	46722	47452	48182	48912	49642	50372	51102	51832	52562	53292	54022	54752	55482	56212	56942	57672	58402	59132	59862	60592	61322	62052	62782	63512	64242	64972	65702	66432	67162	67892	68622	69352	70082	70812	71542	72272	73002	73732	74462	75192	75922	76652	77382	78112	78842	79572	80302	81032	81762	82492	83222	83952	84682	85412	86142	86872	87602	88332	89062	89792	90522	91252	91982	92712	93442	94172	94902	95632	96362	97092	97822	98552	99282	99999	

Serial numbers of the U.S. \$5,000 denomination Bonds drawn are as follows:-

30002	30029	30076	31032	31304	31609	32005	32547	32668	32687	32690	32697	32698	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32699	32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INTERNATIONAL COMPANIES AND FINANCE

Japanese watchmakers hit by sluggish demand

By Charles Leadbeater in Tokyo

JAPAN'S two leading watchmakers, Seiko and Casio, yesterday reported sharp falls in pre-tax profits for the first half of the year, mainly reflecting sluggish demand in Japan.

Seiko's pre-tax profits fell by 38.4 per cent to ¥1.6bn (\$12.8m) in the six months to the end of September, compared with the first half of last year.

Turnover was 9.8 per cent down at ¥137.4bn and operating profits fell by 53.5 per cent to ¥2.89bn. Seiko is maintaining its interim dividend at ¥5, despite a 27 per cent decline in net income to ¥676m.

Seiko blamed the fall on a sharp decline in demand for

expensive and even medium-priced watches as consumers switched to cheaper models. Sales of cheaper styles such as sports watches remained robust, the company said.

Jewellery sales were depressed, apart from cheaper wedding and engagement rings. Export sales were hit by the appreciation of the yen and the slowdown in the US and European economies.

The company warned that the economic outlook for the second half of the year remained uncertain as the stimulus from the government's emergency economic package might be offset by the weakness of the stock market and slower growth in export markets.

Seiko said it expected to make pre-tax profits of about ¥3.2bn for the year as a whole, down from ¥3.6bn last year, on turnover of ¥280bn, against ¥288.74bn in 1991.

Casio reported a 24 per cent fall in pre-tax profits to ¥8.58bn in the first half of the year, despite a 3.5 per cent increase in turnover to ¥171.03bn, mainly due to a surge in sales of its small liquid crystal display TV sets.

Casio also suffered a valuation loss of ¥960m on its securities holdings.

The company said exports to Europe, its main overseas market, had been badly hit both by the appreciation of the yen and markedly slower economic growth.

Exchange wavers over electronic trading link

By Richard Waters

PLANS to establish electronic links between investors and brokers to make international securities trades easier have been thrown into doubt by the London Stock Exchange.

The exchange has had second thoughts about building links between its own electronic trade confirmation system, Segal, and two others from rival suppliers.

Such links are an important element in the planned network through which investors would be able to confirm trades with each other.

The exchange's apparent change of heart has provoked a sharp reaction from institutional investors and others, and brought a threat that it could be dropped from a list of recommended suppliers.

The exchange was one of three suppliers picked by a group of investors and brokers a year ago to develop trade confirmation systems. It was made clear at the outset that bridges between the three were an important element in the initiative.

Now, though, the exchange has said that it wants more time to study the business case for building the links before proceeding.

This has aroused suspicions that it sees the links as a threat to its own future, since they could form the basis of a network on which investors could deal directly with each other.

In a note to other investors who jointly commissioned the three systems, Mr Alistair Reid, a director of Morgan Grenfell's fund management arm, warned that the exchange risked being "removed from the initial list of vendors." He added, though, that he was encouraged that the exchange has now decided to bring forward its consideration of the business case to its December board meeting.

The exchange said yesterday that more time should be given to determining what demand there was for electronic trade confirmation before the three suppliers embarked on the next step of building the links.

The new scheme incorporates the potential \$450m infusion from Air Canada and Air Partners, a Texas-based investment partnership.

That deal, announced last week, would give the two investors equity stakes of 27.5 per cent each in the reorganised US carrier.

In the document, Continental claims that significant potential benefits may be realised from an inter-carrier relationship with Air Canada.

It suggests that the principal gains could come in the areas of technical operations and maintenance, commercial systems, information systems and fleet planning.

MGM posts reduced deficit in third term

By Karen Zagor in New York

METRO-Goldwyn-Mayer, the Hollywood studio now controlled by its French bank creditor Crédit Lyonnais, has posted a third-quarter operating loss of \$27.2m, compared with \$52.5m a year earlier.

Including one-time items and interest expenses, MGM's net deficit was \$79.5m in the quarter, against \$73.5m in the same period of 1991.

Revenues rose to \$228.5m from \$202.2m, led by video and television licensing.

MGM is still struggling to clean up its balance sheet after being run for nearly a year by Mr Giancarlo Parretti, the controversial Italian financier who lost control of the studio in December.

The company said it had stepped up production and development since Mr Parretti's departure, but it did not expect these activities to be reflected in its results until next year.

For the first nine months, MGM suffered an operating loss of \$79.4m on revenues of \$722.5m, compared with an operating loss of \$110.9m on revenues of \$703m a year earlier.

The company's net deficit for the 1992 period stood at \$193.5m against \$233.2m.

Live Entertainment, the video distribution company 49.9 per cent owned by the cash-strapped Caroleo Hollywood studio, yesterday posted third-quarter net income of \$1.1m, or 5 cents a share, against a net loss of \$40.5m, or \$3.39, last year.

Sales in the quarter rose to \$91.2m from \$85.7m.

The group said its improved results in the latest quarter were due partly to higher sales and gross profit margins at Live Home Video.

In the 1991 third quarter, there was a \$15m write-down in connection with its acquisition of Vestron in July 1991.

The company said it expected its "sales and profits will continue to reflect this improvement in the fourth quarter."

Tokyo tries to revive stock market

By Emiko Terazono in Tokyo

JAPAN'S Ministry of Finance yesterday announced rule changes for initial public offering procedures for stocks, in an attempt to revive faltering investor interest in the country's stock market.

The changes are part of the government's emergency economic package announced last August and are intended to reduce the risks of investors and brokers during share offerings, and to ease restrictions for companies which want to go public.

Mr Teitoku Hata, finance minister, outlining the changes, said he hoped the new rules would reinvigorate the slumping Japanese stock market.

The revision, due to be implemented in January, will allow underwriting brokers to



Teitoku Hata: hopes new rules will boost market

decide the offering price from the average bidding price of the prior share auction.

Until now, the public offering price of 50 per cent of a

new listing has been fixed at the weighted average of the 10 highest bids in a share auction of the remaining 50 per cent of the newly offered shares.

This led to excessive competition and unrealistically high bidding prices, often leaving investors and underwriters with over-priced shares.

While the current method functioned smoothly during the bull market of the late 1980s, the sluggishness of the Tokyo stock market increases the risk for buying newly offered shares.

By allowing underwriters to discount from the average bidding price, brokers will be able to offer realistic prices which reflect investor sentiment.

Nomura Securities said the changes would allow brokers and investors to quantify risks.

Last year's listing of Sony Music Entertainment, the

music arm of the consumer electronics group, provoked criticism from investors, as on the first day of trading, its share price plunged below the initial listing price.

Other measures include:

- To nullify an auction if the number of bids falls short of 25 per cent of the total shares offered.
- Under current rules, auction would be valid even if bids did not cover the total 50 per cent of the offering.
- To lengthen the period for new offerings, now concentrated during November to March, to a nine-month period between August and April.
- To shorten the period between the auction and listing dates from 14 to 12 days.
- To increase the period before the auction at which information is provided for investors from 15 to 30 days.

See World Stock Markets

Solid sales growth at Nintendo

By Emiko Terazono

NINTENDO, the Japanese video game manufacturer, saw solid growth in both interim sales and profits, driven by firm demand for its new video game software.

The company, which is likely to become the third-largest profit earner among listed Japanese manufacturers, posted a 5.5 per cent rise in non-consolidated pre-tax profits to ¥90.25bn (\$697.17m) for the first half to September, and a 13.2 per cent rise in sales to ¥277.4bn. After-tax profits totalled ¥41.5bn, up 10.4 per cent.

Despite a fall in domestic

consumer spending and a continued slump in overseas economies, the company saw strong demand for the advanced version of its video game. Domestic sales jumped by 15.4 per cent to ¥101.7bn while exports increased 11.9 per cent to ¥175.6bn.

Nintendo said its video game, Super NES, had gained particular popularity in Europe, where the company started to market the model this year.

New software using the popular game character, Mario, also contributed to the rise in sales.

Nintendo said its most popular software product had sold

2.27m copies since its launch at the end of September.

The company saw a 5 per cent rise in interest received, thanks to a 25.1 per cent rise in cash in hand and deposits.

The company is renowned for not having short or long-term borrowings, or speculative securities investments.

For the full year to March, parent pre-tax profits are expected to rise 6.4 per cent to ¥166.2bn, surpassing non-consolidated pre-tax profits at Matsushita Electric Industrial. Sales are forecast to rise 10.3 per cent to ¥560bn, while after-tax profits are projected to increase just under 1 per cent to ¥86bn.

Daihatsu suffers ¥4.92bn loss

By Charles Leadbeater

DAIHATSU, the Japanese carmaker which specialises in minicars, yesterday announced that the downturn in the country's economy had forced it into its first loss since the second world war.

Daihatsu joins Nissan and Mazda Motors as the car manufacturers which have been hit worst by the slowdown in Japanese consumer spending.

Nissan last week declared a first-half loss and Mazda reported a fall in pre-tax profits of more than 70 per cent.

In contrast Toyota, the leading manufacturer, and Honda have managed to contain the impact of the downturn on their finances.

Daihatsu, which is affiliated to Toyota, reported pre-tax losses of ¥4.92bn (\$39.67m) for the six months to the end of September.

This compares with pre-tax profits of ¥3.63bn in the first half of last year.

Its net losses amounted to ¥4.94bn, against profits of ¥2.24bn in the first half of 1991. The company said that it would not pay senior execu-

tives a winter bonus and halved its interim dividend to ¥15.

Daihatsu blamed the sharp deterioration in its finances on rising sales and labour costs which outstripped its 2.5 per cent increase in turnover to ¥391m for the half-year.

The value of Daihatsu's sales rose mainly due to production of higher priced models for Toyota.

However, sales volume fell by 12 per cent to 287,000 units in the first six months of the year.

Dayton Hudson figures reflect current trends in US retailing

By Nikki Tait in New York

DAYTON Hudson, the fourth largest US general merchandise retailer with operations ranging from department stores to the Target discount chain, yesterday reported a sharp improvement in third-quarter profits, up to \$57m from \$35m in the same period of 1991.

Earnings per share rose from 40 cents to 70 cents. The company said the advance reflected significantly better gross margins, as operating expenses improved and the mark-down rate became more favourable.

These two factors offset the modest increase in same-store sales - up around 2 per cent for the group overall in the third quarter.

During the quarter, Dayton's total sales were \$4.34bn (\$2.8bn), and the company is posting after-tax profits of \$134m (\$109m) for the first nine months of 1992.

Dayton's figures seemed to confirm the prevailing trend in the US retail sector - modest underlying sales growth but more significant progress at the bottom-line, thanks to expense controls and other operational improvements.

Yesterday a pre-holiday season survey of retailers by Deloitte & Touche echoed this message.

"Our retailer findings show some positive signs for this holiday season," said Mr Irwin Cohen, co-chairman of D&T's retail and distribution services group.

"Retailers have brought their businesses more in line reality

over the last several years, but seem to have heightened expectations for this season as compared to prior years."

The survey - based on replies from 1,175 retailers - suggests that about two-thirds expect consumers will spend the same or more than last year. For November and December, about 41 per cent expect comparable sales and profits to be either flat or up to 3 per cent higher. However, about one-third of those polled think that results will be better than this.

The most highly ranked business strategy aimed at combating competition over the holiday season was a tightening of corporate expenses. Next came a tightening of stock levels and third was increased promotional activity.

Continental says shake-up plan may offer 'significant' benefits

By Nikki Tait

CONTINENTAL Airlines, the fifth largest US carrier which has been in bankruptcy since late-1990, has filed its revised reorganisation plan with the courts.

The new scheme incorporates the potential \$450m infusion from Air Canada and Air Partners, a Texas-based investment partnership.

That deal, announced last week, would give the two investors equity stakes of 27.5 per cent each in the reorganised US carrier.

In the document, Continental claims that significant potential benefits may be realised from an inter-carrier relationship with Air Canada.

It suggests that the principal gains could come in the areas of technical operations and maintenance, commercial systems, information systems and fleet planning.

Westinghouse considers sell-offs to relieve exposure to property

By Martin Dickson in New York

WESTINGHOUSE Electric, the embattled US conglomerate, is considering more rapid and comprehensive solutions to the troubles of its financial services unit's portfolios over five years.

However, it was now conducting a comprehensive review of alternative strategies, due to be completed in the fourth quarter or shortly afterwards, in the light of factors such as continuing adverse economic conditions and declining margins and yields in the Westinghouse portfolio.

The review might lead to the sale or liquidation as soon as possible of some or all of the portfolios, involving another substantial reserve.

property problems, on top of a \$975m charge to sort out the financial services unit at the start of 1991.

The company said it had been pursuing a strategy of reducing the financial services unit's portfolios over five years.

That, in turn, would require the sale of one or more of the group's businesses.

Mr Paul Lego, Westinghouse's chairman, said the group would not be stampeded into premature decisions. If businesses were sold, it would try to optimise its return and find strategic buyers who would serve the interests of employees and customers.

Last month, Mr Lego had to issue a press statement reassuring investors that rumours the group was about to file for Chapter 11 bankruptcy were "groundless".

Westinghouse's management is expected to be the subject of numerous hostile resolutions from shareholder activist groups at next year's annual meeting because of the group's poor recent performance.

minority stake in USAir has provoked a storm of controversy, with big US carriers arguing that this equates to control. US rules do not permit foreigners to control a domestic airline.

Under the revised reorganisation plan, secured creditors of Continental will generally have their claims restructured, while unsecured creditors will be offered shares in the reorganised airline, plus a share in any cash arising from certain litigation.

Air Canada is exploring new options that it says the federal government should look at before it commits any financial aid to PWA, Reuter reports from Ottawa. "Before the government commits itself to a bail-out of PWA they should sit down with both parties and see if there is not something of interest for the industry," said Mr Denis Couture, spokesman for Air Canada.

DoT signals approval to Northwest Airlines

By Nikki Tait

THE US Department of Transport has tentatively approved an essential legal condition to the proposed integration of services between ELAL Royal Dutch Airlines, the Dutch flagship carrier, and Northwest Airlines, the fourth largest US airline.

The DoT announced it was issuing a "show-cause" order, seeking comment on why it should not approve a request from the two carriers to combine their operations and effectively function as a single carrier.

The order sets a 21-day period for comments and replies, after which the DoT will issue its final decision.

However, the US authorities made clear the agreement "should benefit the public by providing better services and enabling the two carriers to operate more efficiently."

The DoT said it did not expect the agreement to reduce competition substantially, but it will still require the carriers to resubmit the arrangements for review in five years.

KLM has held a minority stake in Northwest since a \$3.65bn leveraged buy-out of the US carrier in 1989.

However, the two airlines claim any significant integration of their respective business has been hampered by the need for immunity from prosecution under US anti-trust laws.

Because US law prohibits a foreign carrier from owning a controlling interest in a US airline, the two airlines argue that there is "a very real risk that collaborative planning, scheduling, pricing and marketing of services could be challenged as being price-fixing and market allocation agreements between horizontal competitors."

The request for anti-trust immunity came shortly after the US and Dutch governments signed an "open skies" aviation pact, essentially allowing each others' carriers unfettered access to the respective home markets.

The issue of operational integration arises at a delicate time for Northwest when financial uncertainties are hanging over the company.

Kuoni forecasts profits growth

By Ian Rodger in Zurich

REISEBURO Kuoni, Switzerland's largest travel agency, expects net profits to rise sharply in 1992 to between SF36m and SF40m (\$24.30m-\$27.70m), thanks to higher sales and cost cutting.

Last year, the group's net profit fell 21 per cent to SF21.3m.

Sales in the first nine months were close to SF72m, up 18 per cent.

Brazilian tin miner boosted by higher prices

By Bill Hinchberger in Sao Paulo

PARANAPANEMA, the world's largest tin exporter and Brazil's largest private mining company, unveiled profits of \$32.3m for the first nine months of this year but posted a loss of \$30.6m for the entire year. The results were boosted by higher tin prices.

Reliable figures for the first nine months of 1991 were not available due to government-mandated changes in inflation accounting procedures, said Mr Arislando Prado, director of market relations.

In early September, the tin price peaked at about \$7,200 per tonne, up from a norm of about \$5,500 during the first half of the year. Prices have since fallen to around \$5,800 a tonne.

The construction business, responsible for about 30 per cent of receipts, remained in the red.

Administrative costs, down 22 per cent since the beginning of a reorganisation scheme in May, also helped improve profit figures. Mr Prado said layoffs were primarily due to the fusion of administrative structures of the mining and construction branches.

Paranapanema's tin output

should remain stable, at about the 17,000 tonnes produced last year, said Mr Prado.

Papel Simao, a leading Brazilian exporter of tin products, posted profits of \$1.9m for the first nine months. The year-end profit figure last year was \$2.6m.

The publicly traded company is controlled by Votorantim, Brazil's largest conglomerate, which bought 100 per cent of Papel Simao's voting stock, and 47.7 per cent of total capital, for \$150m in September.

Votorantim already owns Celvav, a competing pulp and paper producer, but there are no merger plans, said Mr Mil-

ton Correa Henrique, finance director for Papel Simao. Instead, the two subsidiaries are exploring potential avenues for co-operation, he said.

Expecting a reversal of the current decline in the international pulp and paper market, Papel Simao is investing \$130m to increase cellulose production in its Jacarei plant by 100 tonnes a day, from 550 tonnes. The project should be completed in December 1993, said Mr Calfat.

The company also plans to invest \$270m to expand paper production capacity, to be ready by the first half of 1995, said Mr Calfat.

AHB

Applications are invited for the
Alan Harper Bursary,
an award jointly sponsored by the
Financial Times and BT, in
association with the
British Journal of Photography.

A bursary of up to £5000 will be
available to full-time photographers/
photographic technicians, or
students on a recognised full-time
photographic course aged 25 or
under on 1 January 1993.

This bursary has been set up in
memory of FT Photographer
Alan Harper who died whilst on
assignment in Kuwait in April 1991.

Please contact Natasha Anderson
on 071 873 3517 for an
application form.

CLOSING DATE 31 DECEMBER 1992

FINANCIAL TIMES

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INTERNATIONAL COMPANIES AND FINANCE

Telecom NZ profits advance 2.6%

By Terry Hall
in Wellington

TELECOM Corporation of New Zealand yesterday reported a 2.6 per cent rise in net profits to NZ\$184.8m (US\$86.3m) for the six months to September 30 from NZ\$180.2m a year earlier, in spite of a fall in operating profits to NZ\$122.2bn from NZ\$128bn.

Telecom NZ, whose main shareholders are Bell Atlantic and Ameritech, the US telecommunications groups, announced an unexpected 11.25 per cent rise in dividend.

Analysts said this was a sign that the company expected earnings to rise strongly in the second half following a review of services,

cost structures, capital spending and revenue streams. Telecom NZ is listed on Wall Street, London and main Asian exchanges as well as in New Zealand.

Mr Peter Shirlcliffe, chairman, said the company had performed well in an environment of intensifying competition, by combining cost reduction programmes with carefully focused growth strategies.

He said the result was satisfactory as the period did not include earnings from the Auckland white and yellow page directories, which contributed NZ\$16.5m last year. These results will be included in the final quarter's figures.

Mr Shirlcliffe said there was a continuing decline in some revenue streams including from national calls which were down 13.8 per cent because of competition. Earnings from international calls were also down.

Cellular revenue rose 25.4 per cent, with cellular connections up 34.1 per cent compared with September 1991. National call volumes were up 1.6 per cent, which Mr Shirlcliffe said was a reflection of a strengthening economy. Smartphone and payphone revenue rose 68.4 per cent.

The company had handled competition successfully and held 86 per cent of the market at September 30. Mr Shirlcliffe

said the current review was designed to produce important improvements which will result in earnings growth and shareholder value. This would produce exceptionally strong cash flows and a strong balance sheet. It would be helped by new technological services and new products.

Operating expenses fell to NZ\$876m from NZ\$830m and operating earnings rose to NZ\$348m from NZ\$338m. Investment income fell to NZ\$20m from NZ\$27m and tax took NZ\$77m compared with NZ\$87m.

Earnings per share were unchanged at 8 cents and the interim dividend is being raised to 7.25 cents a share from 6.5 cents.

Earnings at Larsen and Toubro surge ahead

By R.C. Murthy
in Bombay

PROFITS of Larsen and Toubro, India's largest engineering company, surged in the first half, contrary to the trend of falling corporate profits among other Indian companies.

Net profits advanced to Rs568m (\$19.9m) for the six months to the end of September, from Rs490.4m a year earlier, on sales one fifth ahead at Rs9.4bn compared with Rs7.89bn.

The group, which manufactures plant and equipment for anything from dairies to the nuclear power industry, said it was swamped with orders as Indian companies rushed to buy locally manufactured plant which became cheaper than imports after devaluation of the rupee in February.

Larsen and Toubro's order book rose in the past 12 months by 70 per cent to Rs15.36bn from Rs9.05bn.

The orders include building, for the first time, the country's history, four well platforms costing Rs4bn for the Oil and Natural Gas Commission, the Indian state-owned oil corporation, as well as widening the state highway in Orissa, a dairy plant in Gujarat, a hospital in Sikkim and upgrading a hydro-electric project in Nepal.

Looking to the rest of the year, the directors said: "The company expects to produce good results," though they did not forecast any figures.

The group expects to invest at least Rs30bn over the next five years, including Rs15.5bn on the first phase of an alumina project in the eastern state of Orissa. It also plans to triple cement output from 2.2m tonnes to more than 6.6m tonnes within three years.

The company was started in Bombay by two enterprising Dames, Mr Holk Larsen and Mr Soren Toubro, during the second world war.

Troubled Westpac sells Channel Ten holding group

By Kevin Brown in Sydney

WESTPAC Banking Corporation, the troubled Australian bank, yesterday said it had completed the sale of Television and Telecasters (TTL), the holding company for the Channel Ten television network, to a consortium led by CanWest Global Communications, a Canadian broadcasting group.

Westpac did not reveal the price for the sale, which is subject to regulatory approval. However, CanWest said that the consortium expected to pay about A\$235m (US\$161m), of which about 50 per cent would be financed by a loan from Westpac.

CanWest, Canada's largest independent television broadcaster, will take a 15 per cent stake in TTL.

Other consortium members have not been named, but Television North Queensland, a regional broadcaster which

carries the Channel Ten signal, is believed to be planning to join the consortium.

CanWest last year bought a stake in New Zealand's fledgling TV3 network, and is believed to be planning to achieve synergies between the two countries through common programming.

TTL, the least successful of Australia's three commercial television networks, was acquired through a debt-for-equity swap last year.

The network had been in receivership since it defaulted on its bank debts in September 1990.

However, the network recently announced a return to profitability after two years of losses with a net profit of A\$15.2m for the 50 weeks to the end of September.

The sale of Channel Ten heralds the end of a period of uncertainty for Australia's three commercial broadcasters,

all of which have suffered changes of ownership in the last two years.

Channel Seven, once owned by Mr Christopher Skase's Qntex Australia group, remains in receivership, but is profitable, and is expected to be floated on the Australian Stock Exchange next year.

Channel Nine, the top-rated network, is making strong profits following the acquisition of a controlling shareholding by Mr Kerry Packer's Consolidated Press group.

Channel Nine was previously owned by Bond Corporation, the failed flagship of Mr Alan Bond, the bankrupt entrepreneur.

The sale of Channel Ten will improve Westpac's image, which has been battered by poor financial results, bad debts, a failed rights issue and the recent resignation of five directors, including the chairman.

Maori consortium wins battle for Sealord

By Terry Hall in Wellington

SEALORD Products, New Zealand's biggest deep-sea fishing company, was yesterday sold to a consortium of Maori people and Brierley Investments (BIL), the New Zealand investment holding company, for NZ\$350m (US\$182m).

They beat off a bid from a group led by Royal Greenland, a Danish group.

Sealord has been a subsidiary of Carter Holt Harvey since 1978 and has become the leading holder of deep-sea fishing quotas in New Zealand, with 26 per cent

of the allowable catch. The controversial deal involving the Maori people is designed to settle permanently fishing claims dating from the 1840 Treaty of Waitangi, the peace pact signed by the British colonial powers and the Maori.

The New Zealand government has lent the Maori people NZ\$150m to help fund their part of the deal.

While a majority of Maori tribes supported the proposal, a minority, including a tribe on the Chatham Islands, objected and unsuccessfully took the issue to the Court of Appeal.

They argued it was unjust for the government to seek to settle their grievances for all time. Last night this group vowed to continue to fight it.

Sealord's quota includes two valuable deep-sea species of whitefish: orange roughy, most of which is sold to the US, and hoki, for which there is a growing international market. The company is also involved in processing squid and ling, scallops and mussels. In the year to last March it employed 1,400 people and had sales of NZ\$250m.

Sealord estimates profits of NZ\$40m for the year to March

31 1992. Mr David Oskin, Carter Holt Harvey managing director, yesterday said the company was trading ahead of budget for this year, and the new owners might be able to extract further value from Sealord's resources.

Brierley Investments, on behalf of the joint venture company to be known as Te Ika Paewai, said the consideration was NZ\$337m. However after adjustments for profit, working capital and capital expenditure for the two-month period from September 1 to October 31, the total consideration would be NZ\$350m.

New Straits Times Press rises to MS96m

By Kieran Cooke
in Kuala Lumpur

THE New Straits Times Press, Malaysia's largest newspaper and publishing group, has announced pre-tax profits of MS96m (\$38.5m) for the year ending August 31 1992. This compares with a profit of MS82m in the previous year.

Group turnover rose 23 per cent in the year to MS375.6m. The group is part of Renong, the Malaysian conglomerate.

A final dividend of 15 Malaysian sen has been proposed compared with 10 sen in 1991.

Foster's meets rights issue target

By Kevin Brown

FOSTER'S Brewing, the Australian drinks, finance and pastoral group, yesterday said it had successfully completed a two-for-five rights issue to raise just over A\$1bn (US\$689m).

Mr Ted Kunkel, chief executive, said over 97.5 per cent of the shares had been taken up, leaving a shortfall of about 21.6m in underwriters' hands.

He said the issue had been "an outstanding success" in the face of generally depressed economic conditions and a fall of 132 points in the Australian Stock Exchange All Ordinaries index between the announce-

ment and the close of the issue. "Foster's Brewing Group looks forward to a period of stability, and our management is firmly focused on our worldwide brewing operations. Shareholders have shown faith in the company and I believe that faith will be rewarded," he said.

The Foster's issue, which was fully underwritten, is the first big capital raising in Australia since the failure of a A\$1.2bn rights issue by Westpac Banking Corporation in September, which was 72 per cent undersubscribed.

Foster's announced the rights issue in September, shortly after reporting a net

loss of A\$951m for the year to the end of June, following write-downs of A\$1.9bn against pastoral, finance and investment operations.

The group is attempting to restructure itself as a pure brewing operation, but has been unable to dispose of many non-brewing assets. The rights issue is intended to repair the group's balance sheet following a series of hefty write-downs.

Broken Hill Proprietary, recently took a 32 per cent shareholding in Foster's by buying most of the stock held by the receiver to International Brewing Holdings, a private company formerly controlled by Mr John Elliott.

Santos drops its bid for Sagasco

By Kevin Brown

SANTOS, the Australian energy group, yesterday dropped a A\$560m (US\$336m) bid for Sagasco Holdings, the oil and gas company, after legal action against the bid by the Trades Practices Commission (TPC), the federal competition watchdog.

But Santos said it would try to acquire 19.9 per cent of Sagasco, on the market since the South Australian state government decided earlier this year to sell its 57 per cent holding.

Santos said its decision to drop the bid was prompted by

uncertainty over the outcome of the TPC action, which is expected to be heard in the Federal Court in March.

The group also said it was concerned about uncertainty surrounding a rival A\$122m bid by Sagasco for Magellan Petroleum Australia, launched shortly after the announcement of the Santos offer for Sagasco.

The Queensland Court of Appeal has prevented the mailing of takeover documents from Sagasco to Magellan shareholders pending a trial of objections filed by Magellan.

Santos said it would oppose an application by the TPC for a permanent injunction against the offer, suggesting that it remains a potential bidder for control of Sagasco in the long term.

"Santos has senior counsel's advice that it has a strong case and that the TPC is unlikely to succeed at trial," the company said. The TPC claims the takeover would give Santos control over gas supplies on the Australian mainland.

Santos shares closed two cents higher on the Australian Stock Exchange at A\$2.37.

India's ITC up 28% in first half

By Shriraz Sidhva
in New Delhi

ITC, the diversified Indian group with interests in cigarette manufacturing, hotels and agribusiness, has reported improved profits and foreign exchange earnings for the first half to September, maintaining its status as India's leading exporter.

The Calcutta-based company, in which the BAT Industries of the UK has a 32 per cent stake, reported higher turnover of Rs18.03bn (US\$65.75m), compared with Rs18.61bn a year earlier.

Export sales rose to Rs2.97bn from Rs2.24bn, and gross profits advanced to Rs1.25bn from Rs1.01bn.

Taxable profits moved up by 22 per cent to Rs1.15bn from Rs951m and net profits were 28

per cent ahead at Rs660m, against Rs517m.

The improvement came in spite of a five-month industrial dispute at its Tribeni Tissues paper division.

The company says it will continue to give the highest priority to exports. It has set itself a target of achieving \$1bn in international sales by the year 2000.

U.S. \$50,000,000
11% per cent. Capital Notes 1993
of Bank of New Zealand ("BNZ")

NOTICE IS HEREBY GIVEN in accordance with Clause 21 of the Trust Deed (the "Trust Deed") by which the above captioned notes (the "Notes") were constituted that the Trust Deed (and the trusts deeds supplemental thereto) have been modified.

The Government of New Zealand ceased on 6th November 1992 to own the majority of the shares of BNZ. Immediately prior thereto National Australia Bank Limited, being a third party beneficiary to the Law Debenture Trust Corporation P.L.C. as trustee (the "Trustee") in relation to the Notes, had, in a Third Supplemental Trust Deed, given to the Trustee a valid and binding guarantee in a form and manner satisfactory to the Trustee of the payment of the principal of, and interest on, the Notes and of all other monies payable under the Trust Deed, the Notes and the Coupons relating to them as provided for in Clause 21(F) of the Trust Deed and Condition 9 of the Notes.

Copies of the Trust Deed and the Third Supplemental Trust Deed may be inspected at the offices of the Trustee at Princess House, 95 Gresham Street, London EC2V 7LY.

18th November, 1992 Bank of New Zealand

This Notice has been approved by an authorized person for the purposes of the Financial Services Act 1990.

Wells Fargo & Company

US\$200,000,000
Floating rate subordinated capital notes due 1998

In accordance with the provisions of the notes, notice is hereby given that for the interest period 18 November 1992 to 18 February 1993 the Notes will carry an interest rate of 4% per annum. Interest payable on the relevant interest payment date 18 February 1993 will amount to US\$102.22 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

J.P. Morgan & Co. Incorporated

US\$200,000,000
Subordinated floating rate notes due August 2002

In accordance with the provisions of the notes, notice is hereby given that for the interest period 18 November 1992 to 18 February 1993 the notes will carry an interest rate of 5% per annum. Interest payable on the relevant interest payment date 18 February 1993 will amount to US\$63.89 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

THE KOREA EUROPE FUND LIMITED
International Depository Receipts
Issued by:
Morgan Guaranty Trust Company of New York

Notice is hereby given to the IDRs-holders that the Korea Europe Fund Limited declared a distribution of 0.60 cents per share. The record date of this dividend is October 22nd, 1992.

As of November 27th, 1992, payment of coupon number 5 of the International Depository Receipts will be made in US Dollars at the net rate of USD 2.75 per IDR after deduction of depository fees USD 0.25.

This dividend has suffered a deduction of 25% UK withholding tax.

Payment will be made at one of the following offices of Morgan Guaranty Trust Company of New York:

- Buenos Aires, 35, Avenida des Arts
- London, 60, Victoria Embankment
- Frankfurt, 46, Mainzer Landstrasse
- Zurich, 38, Stockenstrasse

Depository: Morgan Guaranty Trust Company of New York, 35, Avenue des Arts, 1040 Brussels

National & Provincial Building Society
Issue of up to £200,000,000
Floating Rate Notes 1999

Notice is hereby given that for the three months 15th November 1992 to 15th February 1993 the Notes will carry an interest rate of 7.20833% per annum with a coupon amount of £193.64 per £100,000 Note and £1.85% 30 per £100,000 Note payable on 15th February 1993.

7 Barclays Trust Company, London Agent Bank

Sankom Chemical Nederland B.V.
U.S. \$20,000,000
Floating Rate Notes
Due 1994

Interest Rate: 4.05% per annum
From 16th November 1992 to 17th May 1993

Interest Amount due 17th May 1993 per U.S. \$100,000: U.S. \$10,237.50

The Sankom Trust & Banking Co., Ltd.
Agent Bank

Notice of Meeting
To the holders of the 54% Guaranteed Redeemable Convertible Preference Shares 2004 of
Albert Fisher Finance N.V.

NOTICE IS HEREBY GIVEN in accordance with the provisions of the Deed Poll dated February 14, 1989 made by The Albert Fisher Group PLC (the "Company") relating to the above mentioned shares (the "Shares") that a meeting of the holders of the Shares (the "Shareholders") is convened by the Company and will be held at 10.00 am on December 18, 1992 at the Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY for the purpose of considering and, if thought fit, passing the resolution set out below which will be proposed as an Extraordinary Resolution (requiring a majority vote of not less than three-fourths of the votes cast). Details of the background to, and the reasons for the proposed Extraordinary Resolution are contained in a letter of today's date from the Chairman of the Company, copies of which are available for inspection and/or collection by the Shareholders at the specified office of the Principal Paying Agent and the other Paying Agents, the addresses of which are stated below.

The resolution to be proposed at the meeting is as follows:

Extraordinary Resolution

"THAT this meeting of the holders of the 54% Guaranteed Redeemable Convertible Preference Shares 2004 (the "Shares") of Albert Fisher Finance N.V. hereby approves on behalf of the holders of the Shares the purchase and cancellation by The Albert Fisher Group PLC (the "Company") of ordinary shares of 5p each in the capital of the Company pursuant to the authority contained in Resolution 9 set out in a Notice dated November 18, 1992 convening the Annual General Meeting of the Company up to a maximum aggregate amount of 60,000,000 of such ordinary shares and sanctions on behalf as aforesaid each and every modification or abrogation of the special rights and privileges attached to the Shares as is, or may be, involved in any such purchase and cancellation."

BY ORDER OF THE BOARD OF THE ALBERT FISHER GROUP PLC
Mary Sweeney Registered Office: Fisher House
Secretary 61 Thames Street
Windsor Berkshire SL4 1QW

November 18, 1992

NOTES:
Secur Certificates may be deposited with (or to the order or under the control of) the Principal Paying Agent or a Paying Agent for the purpose of obtaining voting certificates or appointing proxies until 48 hours before the time fixed for the meeting but not thereafter.

The holders of Registered Certificates may appoint proxies by executing and delivering a form of proxy in the English language to the specified office of the Transfer Agent not later than 24 hours before the time fixed for the meeting or, in the case of corporations, may appoint representatives of the directors or other governing body by a resolution in the English language and by delivering an executed copy of such resolution to the Transfer Agent not later than 24 hours before the time fixed for the meeting.

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INTERNATIONAL CAPITAL MARKETS

Indigestion may follow Kingdom of Sweden's issue

By Brian Bollen

THE Kingdom of Sweden yesterday became the second Scandinavian borrower in as many days to look to the bond markets for \$2bn. However, its three-year issue was compared unfavourably with Finland's five-year global bonds launched the day before.

INTERNATIONAL BONDS

Some traders complained about the amount, the maturity and the borrowing instrument although they did agree, largely, that the pricing looked just about right.

Such a large amount could, however, take some time to digest, particularly in the light of Finland's success.

After a series of deals in D-Marks, French francs and sterling over five years, Sweden's decision to diversify its maturities with a big liquid

current coupon benchmark deal in the three-year range was not totally vindicated. Joint lead manager and book runner J.P. Morgan confirmed that while demand was good the issue did not sell out.

As Sweden's increased \$5bn SEC shelf registration in New York is now effective, some traders thought it odd the kingdom should launch such a large Eurobond rather than try a global issue.

But Credit Suisse First Boston, the other lead manager, said that one of the main attractions of the Eurobond market remained the ability to launch such a large deal at very short notice.

The bonds bring the total raised on the capital markets under the second phase of the kingdom's emergency borrowing programme to around \$6.5bn, said Mr Staffan Crona, director-general of the Swedish National Debt Office. This leaves a further

€6.5bn to be raised.

Finland's global issue, priced yesterday at the bottom of its indicated range to yield 82 basis points over Treasuries, was still generating excitement and comment. It vindicates the global issue concept for big issues, say some traders.

Finland has got a better deal than anyone thought possible a few weeks ago, and set itself up to tap residual demand in the US next year where investors could well be persuaded to buy more at longer maturities, they say.

Elsewhere, S&P WestLB took advantage of the continuing demand for high-quality current coupon Eurosterling paper with its \$100m 10-year 8% per cent subordinated bond.

The implicit state guarantee enjoyed by German borrowers such as S&P WestLB means that in effect they cannot go bankrupt and can launch subordinated debt at a very tight spread to gilts, in this

case 19 basis points.

Lead manager Lehman Brothers said it had identified a particular lack of supply of triple-A rated bonds in the 10-year range, and that the issue traded around the reoffer spread after it broke syndicate.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Lead	Book runner
US DOLLARS						
Republic of Finland(a)	2bn	6.75	99.55	1997	26/230	Merrill Lynch Int.
Kingdom of Sweden	2bn	5.5	98.42	1995	18 1/2/94	J.P. Morgan Secs.
Square D Co.(b)	250	5	94.08	2002	2 1/2/94	Lehman Bros.Int.
Sumitomo Bk.Cap.Mkt.(c)	50	6	100	2002	30p	Sumitomo Finance Int.
D-MARKS						
Basque Regional Government	200	8	101.825	2002	3/2 1/2	Goldman Sachs
Nikken Foods Co.(d)	12	(d)	100	1998		Salomon Bk.(Deutsch.)
STERLING						
Suedsvenska Lantbruk	100	8.825	101.47	2002	2 1/4	Lehman Bros.Int.
GILTS						
SK For Dutch Municipalities(e)	500	7.625	100.85	2002	1 1/2	ABN Amro
VBS Group	150	7.75	100.6	2000	1 1/2	KWV Effectenbank
SWISS FRANC						
Mitsubishi Cb Co.(f)	300	2.875	100	1998		Credit Suisse
Tatara Standard Co.(g)	100	2.875	100	1998		Paribas Suisse
Toyoko Chemical(h)	25	2.875	100	1998		Paribas Suisse

Final terms and non-callable unless stated. (a) Private placement. (b) Convertible. (c) With equity warrants. (d) Floating rate note. (e) Coupon payable semi-annually. (f) Exchangeable into Schneider shares. Conversion premium fixed at 17 1/2%. Callable from 1/1/97. (g) Coupon pays 700p above 6-month Libor for first 3 years and 8 1/2% fixed annual thereafter. (h) Coupon pays 400p over 6-month Libor. (i) Issue launched on 10/11/92 has been increased to Fr1bn. (j) Final terms fixed on 10/11/92. (k) Final terms fixed on 24/11/92. (l) Final terms fixed on 24/11/92.

Announcement of gilts auction wipes out early gains

By Sara Webb in London and Patrick Harverson in New York

FUNDING worries continued to trouble the UK government bond market with medium-dated issues closing lower on the latest auction announcement.

GOVERNMENT BONDS

The Bank of England's announcement of a gilt auction next month helped to wipe out the morning's gains, dealers said. The Bank plans to auction a medium-dated conventional stock, maturing between 2001-2005, on December 2.

Further details, including the amount and specific stock, will be announced on November 24.

Dealers said the announcement pushed medium-dated issues lower. The 9% per cent gilt due 2002 fell from 109 1/2 to 109 1/4 by late afternoon. Among short-dated stocks, the 10% per cent gilt due 1994 inched up from 104 1/2 to 105 to yield 6.58 per cent.

Dealers estimate the govern-

ment only has about £4bn of funding left to do in the current financial year, to help meet its estimated £37bn public sector borrowing requirement.

By midday the benchmark 30-year government bond was up 1/4 at 100 1/2, yielding 7.55 per cent. The two-year note was also slightly firmer at mid-session, up 1/4 at 89 1/2, to yield 4.62 per cent.

After Monday's curve-flattening trades, which involved buying longer-dated securities and selling the short end, investors came in early to reverse partially that move, with the yield on the two-year note falling further than on the long bond.

Otherwise, trading was subdued in the absence of important economic news, and in the expectation that the Federal Reserve's policy-making Open

BENCHMARK GOVERNMENT BONDS

Coupon	Yield	Price	Change	Yield	Week	Month
AUSTRALIA	10.000	109 1/2	+0.100	8.28	8.28	8.28
BELGIUM	8.750	109 1/2	+0.100	8.12	7.27	8.28
CANADA	8.500	109 1/2	+0.100	8.13	8.04	7.91
DENMARK	9.000	110 1/2	+0.100	8.70	8.61	8.52
FRANCE	8.200	109 1/2	+0.100	8.02	7.91	8.25
GERMANY	8.000	109 1/2	+0.100	7.43	7.34	7.38
ITALY	12.000	109 1/2	+0.100	13.59	13.54	14.76
JAPAN	4.000	109 1/2	+0.100	4.51	4.58	4.71
NETHERLANDS	8.250	109 1/2	+0.100	7.55	7.52	7.65
SPAIN	10.300	109 1/2	+0.100	12.41	12.44	13.25
UK GILTS	10.000	109 1/2	+0.100	7.17	6.77	7.73
US TREASURY	8.750	109 1/2	+0.100	8.37	8.01	8.57
EURO (French Govt)	8.500	109 1/2	+0.100	8.70	8.61	8.10

London closing. * denotes UK Govt morning session. Yield: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents).

Prices: UK, UK in 32nds, others in decimal. Technical Data: All Prices Sources.

Market Committee (which was meeting yesterday) would have interest rates unchanged in light of the recent signs that the economy recovery was gathering pace, albeit only very slowly.

GERMAN government bonds traded in a narrow range ahead of today's holiday. The Liffe bond futures contract,

FT FIXED INTEREST INDICES

	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10
Govt Bonds (UK)	94.06	94.01	94.08	94.34	94.54	94.72	94.84	95.11
Govt Bonds (US)	108.30	108.42	108.08	110.28	110.09	109.39	110.26	97.15

Source: FT Fixed Interest Indices. Govt Bonds (UK) includes 10-year and 30-year. Govt Bonds (US) includes 10-year and 30-year. Govt Bonds (US) includes 10-year and 30-year.

Fixed interest high since compilation: 11/26 (1991/92), low 5/23 (1991/92).

GILT EDGED ACTIVITY

	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10
Govt Bonds (UK)	185.9	214.3	312.2	295.3	302.6	270.5	258.4
Govt Bonds (US)	280.6	287.5	287.5	287.5	287.5	287.5	287.5

Source: FT Fixed Interest Indices. Govt Bonds (UK) includes 10-year and 30-year. Govt Bonds (US) includes 10-year and 30-year. Govt Bonds (US) includes 10-year and 30-year.

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Liffe to include Treuhand bonds in futures contract

By Sara Webb

BONDS issued by Treuhand, the German agency charged with the privatisation of former eastern German assets, will be accepted for delivery in the German government bond futures contract, the London International Financial Futures and Options Exchange (Liffe) announced yesterday.

The announcement was welcomed by bond market participants who said the decision to include Treuhand issues in the list of deliverable bonds for Liffe's bond contract would improve the attractiveness of both Treuhand bonds and the Liffe bond futures contract.

The Treuhand bond issue is already included in the list of deliverable bonds for the bond futures contract on Germany's Deutsche Terminbörse (DTB). However, the difference in the DTB and Liffe contract specifications has led to a widening of the price gap between

the two contracts: this arose because the Treuhand issue is the cheapest to deliver into the DTB contract, and so the DTB bond future is priced lower than the Liffe contract.

Liffe has 67 to 70 per cent of the bond futures contract business, against the DTB's 30 to 33 per cent share. But some market participants warned that Liffe would risk losing market share if it did not include the Treuhand bond issue in its list of deliverable bonds.

The German finance ministry recently said there would be no further 10-year Federal issues as this maturity area would be left free for the Treuhand. The statement led to concern that Liffe might suffer in the longer term as the number of bond issues declined.

Liffe said Treuhand's bonds would be accepted for delivery in the June 1993 contract. The June 1993 delivery will be listed for trading on November 20.

Basque area in first international offering

By Tracy Corrigan

THE Basque area, one of Spain's 17 autonomous regions, yesterday launched its first international bond offering, a DM200m 10-year Eurobond arranged by Goldman Sachs.

Previously, the region has met its financing needs in Spain's domestic market, where it issues four and five-year debt called Euskobonds. The shift to international funding is designed to broaden the investor base and extend the maturity profile of the region's debt, said Mr Victor Mugica, vice-minister of treasury.

He added the government plans to issue a greater proportion of foreign currency debt next year.

This year, the Basque government has raised a total of Ptas1.5bn, of which yesterday's DM200m offering accounts for about 9 per cent. In 1993, the government plans to raise about 30 per cent of its Ptas68bn

borrowings in the international market.

The DM200m Eurobond is rated AA2 by Moody's and AA by Standard & Poor's, the same rating as for Spain's debt, although the paper is not guaranteed by Spain. The rating reflects the Basque government's consistently large operating surpluses, modest debt burden and considerable financial flexibility, according to S & P. The Basque government can use borrowings only for capital investment.

The proceeds of the issue are not swapped. The borrower chose to tap the D-Mark market because, as well as being a current focus for investor demand, rates are substantially lower than in Spain. Mr Mugica has also been considering the dollar sector, but was discouraged by the greater volatility of the currency and the steep yield curve - the government wants to raise long-dated funds.

MARKET STATISTICS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	33	8	28
Other Fixed Interest	249	1	1
Commodity, Industrial	109	18	1
Property	18	0	1
Foreign Stocks	24	45	1
Other Stocks	486		

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Great Portland shows 7.3% fall to £16.2m

By Vanessa Houlider,
Property Correspondent

GREAT PORTLAND Estates, the property investment company, reported a 7.3 per cent decline in pre-tax profits, from £17.5m to £16.2m, for the six months to end-September.

The interim dividend is maintained at 3.4p from flat earnings of 5.6p.

The company expects to maintain its total dividend for the year at 10p, but warned of possible future dividend cuts. "In view of conditions in the property market, shareholders should not assume that the dividend can be maintained at this level," said Mr Richard Pockin, chairman.

He expected second half profits broadly similar to the first. "Since I last reported some five months ago, interest rates have fallen but no real signs of increased economic activity are, as yet, discernible," he said.

The fall in profits was mainly due to a rise in net interest charges from £11.4m to £19.4m, offset by a rise in rental income from £33.3m to

£41m. This resulted from a series of acquisitions in 1991-92 which reduced central London exposure from 83 per cent to 67 per cent and increased retail and industrial property from 14 per cent to 24 per cent.

The results benefited from a fall in the effective tax rate to 21 per cent, as a result of tax allowances on capital expenditure and prior year adjustments.

This left post-tax profits at £12.9m, compared with £11.9m a year ago.

Voids fell from 7 per cent of floor area to 6 per cent and from 10 per cent of gross rental income to 9 per cent.

Tenants were found for over 125,000 sq ft of space, while 65,000 sq ft returned through lease expiries or tenant failures.

● **COMMENT**
Yesterday's 7p fall in Great Portland's share price, triggered by the placing of a stake owned by Costain, interrupted their extraordinary recent performance. Over the past month, the shares have risen by more than 30 per cent, as its

high dividend yield combined with lower interest rates and a flurry of London investment deals to spark an improvement in investor sentiment. This revival in confidence may now have run its course. Although no one was surprised by yesterday's hint of a forthcoming dividend cut, it underlines the pressures on Great Portland's cash flow. Some 15 per cent of its rental income may be eroded by lease expiries and tenant defaults over the next three years, resulting in, at best, relettings at lower rents and at worst, heavy bills for refurbishment and empty rates. Most analysts expect the dividend to fall by 20 per cent to 8p in the year to March 1993, which would put the shares, at 123p, on a prospective yield of 8.7 per cent. While that must have attractions for income funds, the case for Great Portland's shares is less clear when the falling value of its buildings are taken into account. On the admittedly bearish assumption that net assets fall to 160p by March next year, the shares are on a relatively narrow discount to assets of 23 per cent.

During the nine months revenues from brokerage and fee income fell to £465.3m (£472.1m). "A substantial proportion" of the decline was due to a contraction in the reinsurance market, he said.

Sedgwick has also been badly hit by the virtual elimination of the marine reinsurance, income from which has traditionally a mainstay for the E.W. Payne reinsurance broking business.

Despite successful interest rate hedging, investment income fell to £37.8m (£44m), mainly due to lower US interest rates. Interest payable rose to £11.5m (£8.5m).

Operating profit, marginally above at £435.7m (£435.5m) - but increased by 2 per cent in underlying terms - partially reflecting the costs of developing the group's European consulting business.

Although the strengthening of the dollar will boost prospects in the fourth quarter and into 1993, its relative weakness during the first nine months has a negative effect of £1.6m on pre-tax profit. See Lex.

One deal means that trade creditors might salvage as much as 50p in the pound. Clarke had debts of about £25m.

Nestlé is not believed to have taken on Clarke's debts, although it is understood to have reached an agreement over the £26m Clarke owed to Alfa-Laval.

The Swedish company supplied about £12m-worth of equipment to the ice-cream manufacturer after Clarke's purchase and relaunch of the Lyons Maid brand. Delays in the installation of this equipment meant Clarke was unable to manufacture ice-cream in time for the hottest months of summer. It lost many retail outlets as a result.

The Nestlé bid beat an indirect attempt by Mars to gain the Clarke business.

Profit fell by 32 per cent to £458m after abnormal items, mainly because the 1990-91 result included an abnormal profit of £458m resulting from the disposal of ICI's interest in Catolium, an Australian petroleum company.

The board said the continuing impact of increased operating efficiency should lead to a further increase in profits in the current year.

However underlying trading conditions in main overseas markets showed few signs of increased activity and a recovery in petrochemical prices was unlikely because of continuing overcapacity.

The final dividend is 13 cents, making a total of 18 cents (15 cents).

ICI AUSTRALIA, which is 63 per cent-owned by the UK chemicals group, announced a 33 per cent increase in net profit to £431m (£41.5m) for the year to end-September. Revenue dipped 2.4 per cent to £42.7bn.

The group said the improvement reflected cost cutting and efficiency improvements following completion of a series of plant level agreements with trade unions.

The result also benefited from a 38 per cent reduction in interest costs to £436m following falling interest rates and lower debt. Directors said the result was achieved in spite of "a difficult recession year".

Sedgwick shares rise despite decrease to £55.8m

By Richard Lapper

TOUGH CONDITIONS in the reinsurance and US insurance markets and lower interest rates combined to depress profitability at Sedgwick Group, the insurance broking and services company.

Pre-tax profits fell to £55.8m (£74m) for the nine months to September 30. However, the performance was at the top end of analysts' expectations and the shares rose 8p to 156p.

Sedgwick's chairman, Lord King, said the company had made "significant headway" in its efforts to become a global carrier during the last six months.

Projects included the proposed £700m (£497m) investment in USAir, the Dan-Air takeover, the setting up of a new German subsidiary, Deut-

sche BA, the acquisition of a large minority stake in the French regional carrier TAT, and the planned launch next summer of Air Russia, a joint venture with Aeroflot, with a few services from Moscow to other large European cities.

BA is also considering bidding for a stake in Qantas, the Australian carrier which Canberra plans to privatise.

But this global expansion strategy faces a number of hurdles. The biggest undoubtedly involves BA's proposed acquisition of a 44 per cent stake in USAir, which is still being fiercely opposed by the three largest US carriers (American Airlines, United Airlines, and Delta Air Lines) unless they can secure greater access into the UK market.

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US government approval by the transaction's deadline of December 24.

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BA's globalisation plan on target

By Paul Betts,
Aerospace Correspondent

BRITISH Airways yesterday issued a veiled profits warning for the second half of this year while insisting that its longer term plan to become a global carrier through partnerships and acquisitions remained on course.

After reporting a 22.7 per cent fall to £138m in pre-tax profits in its second quarter, Lord King, chairman, said trading conditions were likely to stay "uncertain" for the rest of the year ending March 1993.

But he said the company had made "significant headway" in its efforts to become a global carrier during the last six months.

Projects included the proposed £700m (£497m) investment in USAir, the Dan-Air takeover, the setting up of a new German subsidiary, Deut-

sche BA, the acquisition of a large minority stake in the French regional carrier TAT, and the planned launch next summer of Air Russia, a joint venture with Aeroflot, with a few services from Moscow to other large European cities.

BA is also considering bidding for a stake in Qantas, the Australian carrier which Canberra plans to privatise.

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Lively export market boosts Chicago grains

By Laurie Morse in Chicago

NEWS THAT the record US maize crop is being shipped overseas at a healthy rate has taken pressure off grain prices at the Chicago Board of Trade. Maize for December delivery surpassed \$2.12 a bushel yesterday, and having passed that mile stone, continued on to score a high of \$2.15 1/4 in late trading.

Chicago wheat futures were continuing Monday's advance, also supported by export news. December futures contracts for wheat and wheat in Chicago are close to parity, and as next Friday's first notices for intended deliveries approach, commercial grain merchants and the investment funds that operate in grain futures for profit are engaged in their usual brinkmanship. The funds were said to be buying maize yesterday to cover previous sales.

US grain prices have been on the rise in spite of the US Department of Agriculture's upward revisions of crop estimates last week. In its regular monthly report the USDA said the US maize crop would be a record 9.33bn bushels - a 4 per cent increase from its October estimate. The US soybean harvest has also reached record proportions, and is now estimated at 2.17bn bushels, a 3 per cent increase over 1991.

Traders said the huge crop had already been factored into futures prices and that as the harvest is completed quality factors would begin to come into play. "Historically, the corn [maize] crop doesn't get any bigger [after the November USDA estimates]," says Mr

Warren King, senior grain analyst with Cargill Investors Services. About 1bn bushels of maize remain in the fields and while the harvest could be completed this weekend, winter storms in Iowa and Ohio have left fields wet and in poor condition.

The abundant harvest has forced some farmers to store their excess out-of-doors, and that grain, as well as some of the late-harvested maize, is expected to test poorly for starch and oil content and be subject to mould. "I expect we will be paying a premium for quality corn next year," Mr King said.

In a regular weekly report on Monday, the USDA said wheat and maize shipments were running ahead of last year's. Last week 36.5m bushels of maize and 32m bushels of wheat were inspected for export, well above grain trade estimates.

December wheat futures, which closed on Monday at \$3.76 per bushel, have gained about 40 cents since the September announcement that the US Export Enhancement Program was itself being enhanced prior to the national elections.

Of the 29m tonnes of wheat exports targeted for the programme, about 12m have been sent. Yesterday USDA approved \$22.7m wheat sales to Algeria and Morocco. CBOF soybeans prices rose on fund buying and talk that China might be in the market for US soybean as well as last week's large exports, traders said, reports Reuters. The rise was also aided by news that 22.97m bushels of soybeans had been inspected for export.

Moonlight vigil for Christmas tree growers

By David Blackwell

THE LAST full moon before Christmas has been carefully noted by a motley band of criminals intent on mauling in on the \$40m UK market for Christmas trees.

This year it falls on December 9, but members of the British Christmas Tree Growers Association said yesterday they would be taking all possible precautions. "I have my compound floodlit, with a 24-hour security patrol," Mr John Godwin, president of the association, said yesterday.

Those with ambitions to sell stolen Christmas trees from the back of a lorry could have the European Single Market in mind. In summer the association met European growers to agree a system of standard measurements and quality. However, the Euro-Christmas tree is still some way off - the new rules remain "advisory and voluntary".

"Very few trees will match the specifications this year," said Mr Godwin. "But it's a start."

About 40 per cent of British homes are decorated with real Christmas trees - a market of 5m trees. In normal years about 1.5m trees are imported, mainly from Denmark and Belgium. However, this year sterling's devaluation is likely to make imports up to 50 per cent more expensive than they were last year, according to the association, while British trees are likely to be just 5 per cent up.

Prices for a 6-foot to 7-foot tree will range from £10 to £25 "in the more expensive parts of London", according to Major General Tony Richardson, secretary of the association. He was expecting demand to be strong for British trees, which he said were "in super form" after the wet summer.

The association, which boasts 225 growers, points out that the trees are grown specifically for the Christmas market, so that people should not feel they are damaging the environment by buying a real tree.

There are an estimated 40m trees growing in the UK, annually soaking up around 60,000 tonnes of carbon dioxide from the atmosphere. After Christmas the trees can be converted into woodchips.

In contrast, artificial trees - about 1m are sold each year - "are made from irreplaceable fossilised fuels and they contribute nothing to the improvement of our atmosphere", the association points out.

Exports add savour to Chile's fruit cocktail

David Dodwell on the country leading the southern invasion of northern markets

SOUTHERN hemisphere fruit exporters have doubled their sales to the northern hemisphere in the past decade - but Chile's "exceptional dynamism" has enabled it to grab almost three quarters of total gains.

According to a new study by Mr Jean-Marie Codron in the latest edition of *Agribusiness*, significant further headway can be expected during the coming decade, though it may be accompanied by rising protectionism, and intensified trade conflict in certain fruits - particularly apples and kiwi fruit in Europe and table grapes in the US.

Protection may be best organised in the unified market of the US. But this may be disguised by the use of health and food safety laws, he warns. Best growth will come in currently-closed markets like Japan and South Korea.

The gains made by the southern hemisphere exporters - which include Chile, New Zealand, Argentina, South Africa and Australia - have been made possible by new technologies and faster transport, as well as substantial investment by multinationals, which have been particularly active in Chile.

Mr Codron's study charts the startling emergence of Chile to become the southern hemisphere's dominant fruit exporter. Between 1974 and 1990, its exports of temperate fruit soared from 74,000 tonnes a year to 888,000 tonnes. At the same time, all southern hemisphere exporters together

raised exports from 824,000 tonnes to just over 2m tonnes. While New Zealand exporters also boosted sales - from 74,000 tonnes in 1974 to 386,000 tonnes in 1990 (mainly due to demand for kiwi-fruit) - all other exporters from the southern hemisphere either stagnated or fell back. Only Chile has managed significant

extraordinary isolated position, with the Pacific to the west, the Andes to the east, the Atacama desert to the north and Antarctica to the south. Availability of fruit during the normal "low" season allows exporters to use cheap transport and to have frequent and regular ship departures. Multinational investors

is also attracting the anger of Californians, who are "ready to resort to any methods... by manipulating the quality and phytosanitary [plant health] regulations" to block grape imports in the six weeks leading up to the start of their season late in May. In Europe, where the market for grapes is "still a long way from saturation levels", conflict is likely to be focused on easily stockable products like apples, pears and kiwi fruit. While competition will be "more threatening", Mr Codron forecasts that southern hemisphere exporters will continue to raise sales, reinforcing Europe as the main export market for southern hemisphere fruits. This is not least because of the ineffectiveness of recent protective measures put in place. "One wonders whether the European Community is not looking today to withdraw progressively its support from producers", he muses.

The decade squib of the past two decades has been Australia, which has seen its exports of temperate fruits slump from 115,000 tonnes in 1974 to a mere 53,000 tonnes in 1990. Argentina has also stagnated, with exports rising over the same period from 305,000 tonnes to 282,000 tonnes. Both have been complacent, Mr Codron argues, because a combination of a small population and a large area of potential farmland has discouraged intensive farming techniques.

Argentina has also been diverted by historic demand

from Brazil, a strategic mistake given that country's severe foreign exchange problems, and the rapid growth in the output of its own fruit growers.

South Africa, so long a pariah, could become a serious competitor with Chile in Europe now that it has turned its back on the policies of apartheid. Few of the gains of the past 20 years would have been possible without new technologies and speedier transport - particularly for perishable fruit like nectarines, plums and apricots. Fast refrigerated ships now allow Chilean exporters to deliver fruits to Rotterdam in less than 20 days compared with 30 days more a decade ago. Journeys to Philadelphia take less than 15 days compared with three weeks.

Controlled atmosphere techniques have also been important in extending the growing season for fruit - like early ripening of pears using ethylene, or slowing down the ripening process.

The effect of these changes will be intensification of competition in Europe, with southern hemisphere exporters like Chile and South Africa continuing to make headway. The wild card for Chile in particular will be Japan - a coveted but still elusive market that offers the prospect of making Chile not just the leading southern hemisphere fruit exporter, but one of the most powerful suppliers in the world.

Chile's success is not without attendant dangers, however. In opting to rely on multinationals "the country has taken a large risk which could one day turn against it", Mr Codron notes. Chile's success

has given Chile access to "the most modern channels and the most modern markets", using efficient transport and distribution systems, Mr Codron says. The country "has forged solid commercial experience which it should be able to draw on when Europe ceases to be a mosaic of markets and regulations".

It has comparatively cheap labour and recently a better record of political stability than countries like Chile or Argentina. Chile's success is not without attendant dangers, however. In opting to rely on multinationals "the country has taken a large risk which could one day turn against it", Mr Codron notes. Chile's success

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MINOR METALS PRICES

Prices from Metal Bulletin (last week in brackets).

ANTIMONY: European free market, 99.5 per cent, \$ per tonne, in warehouse, 1,895-1,745 (1,875-1,735).

BISMUTH: European free market, 99.5 per cent, \$ per lb, in warehouse, 2.25-2.45 (same).

CADMIUM: European free market, 99.5 per cent, \$ per lb, in warehouse, 0.60-0.70 (0.55-0.65).

COBALT: European free market, 99.5 per cent, \$ per lb, in warehouse, 16.50-17.50 (15.75-16.75).

MERCURY: European free market, 99.9 per cent, \$ per 76 lb flask, in warehouse, 135-145 (130-150).

MOLYBDENUM: European free market, drummed molyb-

dic oxide, \$ per lb Mo, in warehouse, 2.05-2.15 (same).

SELENIUM: European free market, 99.5 per cent, \$ per lb, in warehouse, 4.80-5.50.

TUNGSTEN ORE: European free market, standard min. 65 per cent, \$ per tonne unit (10 kg WO₃), 45-55 (same).

VANADIUM: European free market, 98 per cent, \$ a lb V₂O₅, 1.75-1.95 (1.80-2.00).

URANIUM: Nuxeo exchange value, \$ per lb U₃O₈, 8.00 (same).

LEAD WAREHOUSE STOCKS (As at Monday's close)

Aluminium +375 to 1,488,200

Copper +2,200 to 325,100

Lead +750 to 184,200

Nickel +432 to 60,222

Zinc +3,450 to 390,200

Tin +55 to 14,200

MARKET REPORT

London's robust **COFFEE** futures eased back to end around \$17 down on a spate of profit-taking, despite setting an early nine-month high of \$990 a tonne. The profit-taking was adding to a correction which could take the New York March arabica contract back to around 70 cents a lb, and the London January robusta to the \$950 a tonne. One dealer said the market could need a couple of days' rest to slow the tempo of the rise rather than an actual price retracement. On the LME LEAD closed firm against a background of positive charts.

London Markets

SPOT MARKETS

Crate oil (per barrel FOB) (Jan) + or -

Debit \$17.15-17.20 +0.15

Brent Blend (Jan) \$18.10-18.20 -0.15

WTI (1st oil) \$20.25-20.30 -0.10

Oil products

(NHS prompt delivery per tonne CIF) + or -

Premium Gasoline \$205-208

Gas Oil \$185-187 -1

Heavy Fuel Oil \$90-92 +1

Naphtha \$187-189 +1

Petroleum Argus Estimates

Other + or -

Gold (per troy oz) \$334.15 -1.80

Silver (per troy oz) \$276.50 -4.0

Platinum (per troy oz) \$322.25 -1.50

Palladium (per troy oz) \$94.75 -0.15

Copper (US Producer) 100.5c +0.5

Lead (US Producer) 33.00c -0.06

Tin (Kuala Lumpur market) 14.25c -0.06

Tin (New York) 32.5c -5

Zinc (US Prime Western) 62.5c

Cattle (live weight) 110-124p +2.62

Sheep (live weight) 73.95p +1.05

Pigs (live weight) 65.00p -2.95

London daily sugar (raw) \$221.0w -0.5

London daily sugar (white) \$226.5w -1.5

Tin and LME export price \$250.0 -0.5

Barley (English) 145p

Maize (US No 3 yellow) 114.5p

Wheat (US Dark Northern) 114p

Compiled from Reuters

SUGAR - London POX (\$ per tonne)

Dec 198.00 199.00 197.00 192.00

Mar 195.00 196.00 194.00 190.00

May 197.00 198.00

White Cane Previous High/Low

Mar 257.00 257.00 257.00 255.00

May 260.00 260.00 258.00 257.00

Turnover: 774 (20) lots of 20 tonnes.

White 977 (774) Parts: White (FF) per tonne:

Mar 1401.74 May 1429.26

CRUDE OIL - IPE (\$ per barrel)

Jan 19.20 19.27 19.41 19.15

Feb 19.18 19.28 19.40 19.12

Mar 19.13 19.22 19.34 19.12

Apr 19.08 19.18 19.28 19.06

May 19.03 19.13 19.23 19.06

Turnover 22533 (20000)

QAS OIL - IPE (\$ per tonne)

Dec 181.50 183.00 184.75 181.25

Jan 183.00 184.50 186.00 182.75

Feb 183.25 184.60 186.00 183.00

Mar 186.00 187.00 188.50 185.00

Apr 175.50 176.25 178.50 175.50

LONDON SHARE SERVICE

AMERICANS

Notes	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	594	593</
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هذه الصفحة

INVESTMENT TRUSTS - Cont.

Notes	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Continuing gloom on Germany

The dollar again broke through the DM1.80 level against the D-Mark yesterday as the market continued to be swayed by Monday's report from five independent economic forecasters suggesting that there will be zero growth in the German economy in 1993, writes James Blyth.

If money market prices are anything to go by, there will be no easing in official German rates before the New Year. But the report from the "five wise men" who advise the German government has again raised the prospect that the Bundesbank will ease policy significantly next month to help boost the economy.

"The dollar continued to rally, peaking at DM1.8070 in European trading and closing at DM1.8060, up nearly a penny on the day. In later American trading, it was trading at 1.8082.

The dollar's rise was partly capped by the Bundesbank's decision to keep its repurchase tender rate steady at 8.75 per cent, despite a net drain of funds in the German money market.

One London-based dealer also said that the Bundesbank and the Bank of England had subtly intervened in the mar-

ket to cap the US currency's rise, but this could not be confirmed.

Mr Neil MacKinnon, chief economist at Citibank in London, believes there is every possibility that the dollar can correct lower, but views this as a technical rather than fundamental process.

He believes that there are still signs of weakness in the US economy and that today's September trade balance is likely to show a deficit of \$8.7bn, because of a poor export performance.

"However," he says, "the Bundesbank will cut rates aggressively next year and I do not rule out a 50 basis point cut in the Lombard rate in 1992, despite uncertainty surrounding the 1993 budget proposals."

Mr Brendan Brown, an economist at Mitsubishi Finance International, has a more cautious view of Bundesbank policy. His central case is that the

western German economy will not go into severe recession and that the decline in German money market rates will be gradual. He sees the D-Mark gaining further ground within Europe in coming months as monetary easing in the UK and Italy outstrips that in the core countries.

Mitsubishi Finance's forecast for the dollar/D-Mark rate in the first half of 1993 is DM1.52; by contrast, Citibank sees dollar/D-Mark at DM1.75 in May of next year.

The D-Mark's intrinsic weakness was a boost for sterling which rose 1 1/4 pence to close at DM2.4300. However, the pound was a good deal weaker against the strong dollar, falling 1/2 of a cent to a low of \$1.525, but later closing at \$1.53. Mr MacKinnon of Citibank believes that there is a strong correlation between the narrowing of US and UK short term rates and the decline in sterling/D-Mark rate.

EMS EUROPEAN CURRENCY UNIT RATES

	Unit	Rate	% Change	% Spread	Overseas
Belgium Franc	100	41.947	-0.001	5.04	47
French Franc	100	6.55957	-0.000	4.92	38
Italian Lira	1,000	2,336.67	-0.001	4.82	38
Dutch Guilder	100	3.76033	-0.001	4.72	38
Spanish Peseta	100	166.639	-0.001	4.62	38
Portuguese Escudo	100	200.482	-0.001	4.52	38
Irish Punt	100	7.87564	-0.001	4.42	38
Swedish Krona	100	13.7603	-0.001	4.32	38
Finland Markka	100	5.94573	-0.001	4.22	38
Austrian Schilling	100	13.7603	-0.001	4.12	38
German Mark	100	1.00000	0.000	4.02	38

Each central bank set by the European Council. Conversions are in descending order of strength. Percentage changes are for the last 24 hours. The percentage change in the unit value is shown in parentheses. The percentage change in the unit value is shown in parentheses. The percentage change in the unit value is shown in parentheses.

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FINANCIAL FUTURES AND OPTIONS

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FINANCIAL FUTURES AND OPTIONS

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MONEY MARKET FUNDS

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Trust Funds

Money Market

Trust Funds

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WORLD STOCK MARKETS

Table with multiple columns for various stock markets including Australia, Canada, Denmark, Finland, France, Germany, Hong Kong, Japan, Korea, Malaysia, New Zealand, Norway, Singapore, South Africa, Sweden, Switzerland, Taiwan, Thailand, UK, USA, and others. Each column lists stock symbols and their corresponding prices and changes.

Table containing market indices and active stocks. It includes sections for 'NEW YORK DOW JONES', 'STANDARD AND POOR'S', 'NEW YORK ACTIVE STOCKS', 'CANADA TORONTO', 'TOKYO - Most Active Stocks', and 'FINANCIAL TIMES'. It provides detailed data on index movements, stock prices, and trading volumes.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page

NASDAQ NATIONAL MARKET

Stock	Dr.	Pr	%	100s	High	Low	Last	Chng	Stock	Dr.	Pr	%	100s	High	Low	Last	Chng	Stock	Dr.	Pr	%	100s	High	Low	Last	Chng
Amalgams	0.44	21	303	261	364	261	364	+	+	+	+	+	+	+	+	+	+	Amalgams	0.44	21	303	261	364	261	364	+
ACC Corp	0.16	44	21	104	16	18	18	+	+	+	+	+	+	+	+	+	+	ACC Corp	0.16	44	21	104	16	18	18	+
Academy	0.34	50	14	114	11	11	11	+	+	+	+	+	+	+	+	+	+	Academy	0.34	50	14	114	11	11	11	+
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Kauai	0.36	18	27	23	22 $\frac{1}{2}$	23	Molokai	0.41	19	140	21	20 $\frac{1}{4}$	21	+1 $\frac{1}{2}$
Niihau		58	174	17 $\frac{1}{2}$	6 $\frac{1}{2}$	7	Lanai	0.60	15	281	10	8 $\frac{1}{4}$	9 $\frac{1}{4}$	+1 $\frac{1}{2}$
Kure Island		20	59	6 $\frac{1}{2}$	6 $\frac{1}{2}$	6 $\frac{1}{2}$	Pearl Reef	0.64	14	76	21 $\frac{1}{2}$	22	21 $\frac{1}{2}$	

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CHICAGO

The FT proposes to publish this survey on **November 30 1992**. Decision makers in over 60 countries worldwide will see this survey. If you want to reach this important audience, call

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FT SURVEYS

AT CONCORD

AMERICA

General Motors slips as Dow holds ground

Wall Street

AFTER Monday's sell-off, US share prices held their own although blue-chip gains were limited and secondary stocks remained weak, writes Patrick Harrison in New York.

By 1 pm the Dow Jones Industrial Average was up 2.17 at 3,208.72. The more broadly based Standard & Poor's 500 was down just 0.01 at 420.67, while the Amex composite eased 1.88 to 384.95. The Nasdaq composite index continued to give up the gains earned in recent weeks, losing another 3.06 to 630.96. Turnover on the NYSE was 107m shares.

There was little economic news of substance yesterday, and attention was fixed on the monthly meeting of the Federal Reserve's Open Market Committee. Recent economic reports have shown that the recovery has gathered pace since the summer, and yesterday analysts did not expect the policy-making FOMC to sanction another cut in interest rates.

General Motors slipped 3% to \$30 in turnover of 1.2m shares on a newspaper report

claiming that the company knew about the vulnerability of its pickup trucks to fires resulting from fuel tank ruptures in 1993, but that it did not take action to rectify the problem until five years later. GM already faces more than 100 lawsuits related to the fuel

BUENOS AIRES saw a 7.6 per cent rise in the all-share index to 11,544.11 as investors returned to the stock market after a run on the peso petered out. Turnover jumped to 70m pesos from 52m.

All 20 blue chips scored big gains with 17 rising by 9 per cent. The biggest risers were Garovaglio and Noblezza Piccardi.

Bank design, and the market fears that the number will rise. Arkia jumped 3% to 39% in heavy trading after the company entered into a pact to sell its exploration unit to Seagull Energy for \$402m. Arkia also planned to sell some properties to repay debt, and was considering selling its Louisiana Intrastate Gas subsidiary.

JWP fell 3% to \$3 after the company said it anticipated making a third-quarter loss of

\$182m following restructuring and other non-recurring charges which total \$35m. ADRs in British Airways dropped 3% to \$38 after the airline announced a 23 per cent decline in second-quarter pre-tax profit and a 6.8 per cent drop in passenger yields in the first six months of the year.

On the Nasdaq market, Borden International slumped 2% to \$36 in turnover of 2.2m shares after the securities house, Lehman Brothers, downgraded the technology stock from "outperform" to "underperform".

Tokos Medical plunged 8% to \$16 after the company warned that fourth-quarter profits would come in well below analysts' forecasts.

Canada

TORONTO recouped earlier losses in this midday trading but rising interest rates and weak gold shares kept a lid on gains. The TSE-300 index slipped 0.70 to 3,235.6 in volume of 17.7m shares. Franco-Nevada led the gold losers, dropping 3% to C\$37, but bank shares recovered after Monday's losses.

Tokyo perilously close to quicksands

A further fall in the Nikkei could take the banks with it, warns Charles Leadbeater

The Tokyo stock market is in danger of slipping back into the financial quicksands.

The Nikkei average is at its lowest level for three months. It has lost about half of the gains it made in the wake of the August announcement of a ¥10,700bn (\$86bn) emergency government spending package to revive the economy.

The wave of euphoria that greeted the package drove the Nikkei up from an year's low of 14,309 in August to a high of more than 18,000 in September. At that time Nikkei Securities was not alone in describing the rally as a turning point. It forecast that the Nikkei would probably trade between 20,000 and 23,000 this autumn, with economic growth recovering strongly by the early spring of next year.

Those hopes have proved ill-founded. From late September until early this month, it was still possible to believe that the August package had done the trick as the Nikkei hovered between 17,000 and 18,000. But in the last nine trading days it has lost more than 1,000 points to close yesterday at 15,983.

A continued decline would have far-reaching implications for the Japanese economy because of its impact upon Japan's troubled banks. The

authorities' ability to prevent further declines in two markets - in equities and in property - will determine the short-term prospects for the banks, and for the economy.

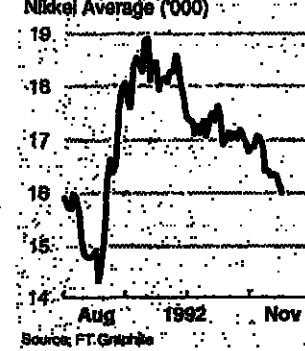
Land prices are still falling. Further falls would erode the collateral for more of the banks' real estate loans. Bad debts for the top 21 banks rose by more than 50 per cent in the six months to September to ¥12,000bn. So arresting the decline in property values, partly through increased government purchases of land for public works, will be vital to curtail the growth of the bank's bad debts.

Share prices are central to the strength of the banks' balance sheets because about ¥18,000bn of the 21 top banks' capital of about ¥40,000bn is made up of unrealised gains on stock transactions. With the Nikkei at between 18,000 and 20,000, the banks' capital base should be strong enough to pass the Bank of International Settlements' (BIS) capital adequacy ratios. That should allow them to increase their lending at more than 5 per cent per annum, fast enough to fuel economic growth next year of about 3 per cent.

However a further fall in the stock market would eat into

Tokyo

Nikkei Average (000)



Source: FT CompuLink

the banks' capital at a time when they are planning write-offs for rising bad debts; and the pressures for the market to fall further are considerable.

The outlook for corporate earnings is dismal, with some analysts predicting that profits next year could fall for the fourth year in a row. Investment is still falling and consumption flat, and there is growing scepticism about whether the government's public investment programme will deliver a kick start to businesses outside the sectors which are direct beneficiaries, such as construction and steel.

A more immediate worry is that companies are selling their stockholdings in other

companies to raise working capital, because they are finding it difficult to raise it by bank borrowings.

Other sources of demand are unlikely to prove strong enough to sustain the market. Foreign investors, who bought heavily when the market reached its summer lows, are likely to wait to see whether it will go down further.

The government's pledge that the public sector postal savings system would buy more stocks is running into opposition from the ministry of post and telecommunications. It has been bombarded with complaints from savers who are unhappy that their money is being used to prop up the ailing stock market. Mr Peter Tasker, chief equity strategist at Kleinwort Benson, comments: "The influx of public funds can slow the market's decline but it cannot chase the market back up."

However, if the banks are to pass the BIS standards by next March the market will have to stage a sustained recovery. With a huge rabbit pulled out of the hat in August, it is likely that an even bigger stimulus will be required.

A further early cut in interest rates of more than 50 basis points is increasingly likely. But that will not be a panacea.

The Nikkei has fallen within two weeks of four of the last five interest rate cuts.

The banks could help by taking more decisive action to deal with their bad debts. But as yet they are taking a gradualist approach.

So the main boost must come from fiscal policy. The supplementary budget to enact the August ¥10,700bn package is stalled in the Diet which is consumed by a power struggle sparked by the Tokyo Sagawa Kyubin scandal. The ruling Liberal Democratic Party (LDP) will face mounting pressure to deliver a large fiscal stimulus through the 1993 budget.

The problem is that political lines of command at the top of the LDP are so confused in the wake of the Sagawa Kyubin scandal that swift and decisive political leadership is unlikely.

A full-scale rout taking the market back to 14,000 cannot be ruled out, though it is still unlikely. But the longer the supplementary budget remains stalled in parliament and the LDP leadership is gridlocked, the more likely it is the Nikkei will continue its dismal drift downwards, threatening to take the banks and the economy with it.

EUROPE

Madrid and Milan buck weaker continental trend

MADRID joined Milan as the continent's risers, while northern bourses were generally weaker, writes Our Markets Staff.

MADRID extended the rally which took off late last week on lower-than-expected inflation figures and the removal of restrictions on the government holding in Tabacalera, one of Spain's privatisation candidates.

The general index rose 2.96 to 206.77. Companies featuring in the current results season showed up, with Repsol rising Ptas160 to Ptas2,645. However, Mr Stephen Hughes at Nikko Europe said its figures were no better than expected. Iberdrola I, which did produce a pleasant surprise, put on Ptas2 to Ptas468 but Banesto lost Ptas2 to Ptas2,670 against a rising bank sector on loan loss provisions and the restructuring of the company's board.

MILAN rose further on continued demand for privatisation stocks, taking the Comit index through its chart resistance point at 480. The Comit index rose 8.92 to 481.30 in continued heavy turnover of around L4,000bn after Monday's L3,944bn.

Dealers said that they were waiting to see what the foreigners would do, since they had not participated greatly in the recent rally, fuelled mainly by domestic buying.

Mediobanca rose L90 or 7.9 per cent to L14,990 before slipping back to L14,550 after hours. Sme continued to be suspended as the market waited for details of the government's plans to sell off part of the group.

ZURICH fell through 1,900 on the SMI index, which lost another 23.9 to 1,899.5 in thin trading. Dealers again blamed weekend polls which showed that the Swiss electorate would reject European Economic Area membership at

FT-SE Actuaries Share Indices

November 17		THE EUROPEAN SERIES									
Hourly changes		Open	12.30	11.00	12.00	13.00	14.00	15.00	Close		
FT-SE Eurotrack 100	1098.02	1098.14	1098.06	1098.32	1097.02	1095.58	1095.40	1095.32	1095.32	1095.32	1095.32
FT-SE Eurotrack 200	1111.13	1111.75	1112.42	1111.51	1111.58	1110.58	1110.58	1110.58	1110.58	1110.58	1110.58
		Nov 16	Nov 13	Nov 12	Nov 11	Nov 10					
FT-SE Eurotrack 100	1058.27	1058.26	1059.91	1045.18	1054.50						
FT-SE Eurotrack 200	1110.19	1114.93	1120.89	1108.97	1117.70						

Source: Value Line (20/10/92) High/Low: 100 - 1058.32; 200 - 1113.20; Low/Low: 100 - 1054.21; 200 - 1108.97

the December 6 referendum.

However, Mr Jonathan Spink at Williams de Broë said that this week's fall coincided, more importantly, with a decline in the Swiss franc against the D-Mark towards a point (90 centimes to the D-Mark) at which the authorities would protect the rate. Swiss interest rates have risen accordingly, and banks showed the strain as CS Holding lost Sfr45 to Sfr1,915.

PARIS continued to fall in thin trading, and some sell orders from the UK were reported. The CAC 40 index dropped 8.29 to 1,764.44 in modest turnover of FF1,700m.

Schneider fell FF37 or 6.5 per cent to FF537 after its US subsidiary, Square D, set a \$233.5m bond convertible into Schneider shares.

Euro Disney fell another FF2.25 or 3 per cent to FF72.15 in a continued reaction to a sell note from Paribas and on fears that tomorrow the theme park will announce heavy losses for the year ended September 30.

Michelin lost another FF4.10 to FF182.40 but Peugeot gained FF16 to FF514. Rumours that a US house was about to publish a negative report on Elf and Total took those shares down by FF10.40 and FF4.30 to FF351.30 and FF231.70 respectively.

FRANKFURT traders tried to push equities up ahead of today's holiday, but buying orders did not materialise and

the DAX index reversed a 14-point gain to close 1,900 lower at 1,545.05. Turnover rose from DM4.8bn to DM5.1bn.

The US dollar's rise above DM1.60 lifted some cyclical, most carmakers, Veba and Siemens. Volkswagen was also boosted by a short-term trading buy recommendation from a domestic broker, closing DM4.50 higher at DM286.50.

Lufthansa's news that its nine-month loss was only slightly worse than in 1991 left the shares DM4 lower at DM100.

STOCKHOLM ran into heavy profit-taking after two days of advances, as the market took the view that Sweden would not abandon its fixed exchange rate policy. The Affinity index fell 2.3 to 723.6 in turnover of SKr708m after SKr430m.

AMSTERDAM was depressed by London and news that the government was planning to lower its estimate for 1993 economic growth from the current 1 per cent. The CBS Tendency index fell 0.7 to 104.5. DSM continued its downward trend as it lost another Fl2.60 to Fl70.50.

SOUTH AFRICA

AN improved bullion price and a weaker financial rand took mining shares off midday lows. The gold index closed 13 down at 761, but off an earlier 764 peak. The overall index fell 7 to 3,054 and industrials rose 9 to 4,078.

ASIA PACIFIC

Nikkei below 16,000 on earnings pessimism

Tokyo

THE Nikkei average fell below 16,000 for the first time since August 30 on pessimism about corporate earnings and the continued delay in Diet debates, writes Emilio Terzani in Tokyo.

The index fell 169.51 to 15,983.48 after a morning low of 15,941.93 on arbitrage selling and an afternoon high of 16,100.90. Volume recovered to 1,301.4 million shares, Monday's 124m, the second-lowest level since August 3. Declines led advances by 670 to 228 with 165 unchanged. The Topix index of all first section stocks lost 11.19 to 1,231.88 and, in London, the ISE/Nikkei 50 index dropped 3.52 to 979.92.

In the morning, Mr Tsutomu Hata, the finance minister, revealed rule changes for initial public share offerings in order to attract individual investors. Investors ignored the announcement. Comments by Mr Kozo Watanabe, the minister of international trade and industry, that the Nikkei average should be at 18,000, considering the competitiveness of Japanese companies, also failed to boost sentiment.

Investment trusts, which have been the leading buyers recently, stuck to the sidelines. Public pension funds were also absent. Foreigners have also been leading sellers of the market. One fund manager at a leading life insurer said that the index was expected to fall to 18,000.

Bank shares met widespread selling on worries over bad loans. Rumour has it that hedge funds were targeting bank shares for short-selling also sent jitters through the market. Industrial Bank of Japan fell ¥80 to ¥2,330 and Fuji Bank lost ¥70 to ¥1,690.

Electronics lost more ground on earnings worries. NEC fell ¥3 to ¥908 and Matsushita Electronics Industries retreated ¥20 to ¥1,040. Hitachi, how-

ever, rose ¥3 to ¥703 on bargain-hunting.

The Tokyo Stock Exchange suspended trading in Gajoen Kanko, the hotel operator involved with Itohan, the scandal-tainted textile trader, after Gajoen's accountants refused to certify its interim earnings report. TSE officials said the shares could be delisted if Gajoen failed to revise its earnings report and obtain a final certificate.

In Osaka, the OSE average lost 92.83 to 17,497.72 in volume of 25.8m shares. Ono Pharmaceutical gained ¥80 to ¥5,290, but Aoyama Trading, the men's clothing company, fell ¥70 to ¥7,390 on profit-taking.

Roundup

PACIFIC Rim markets were more concerned with domestic matters than Tokyo's drop. In Bombay and Calcutta, Indian brokers boycotted trading in protest against registration fees imposed by the Securities and Exchange Board of India.

HONG KONG saw waves of panic selling after a veiled threat about the future of the colony issued in London by Chinese vice premier Zhu Rongji. The Hang Seng index fell to 6,046.74 before bargain-hunters came in, and closed down 206.31 or 3.3 per cent at 6,088.52.

Turnover was moderate at HK\$3.76bn. HSBC Holdings fell HK\$2.50 to HK\$92.50.

AUSTRIA broke through a seven-day decline on bargain-hunting and the All Ordinaries index finished 7.8 up at 1,365.1 in turnover of A\$210.2m.

ANZ closed unchanged at A\$2.53 after reporting a A\$97m loss which the bank blamed partly on write-offs in its property portfolio.

NEW ZEALAND was lifted by a better than expected first half result from Telecom Corp and the NZSE 40 capital index ended up 9.46 at 1,418.97 in turnover of NZ\$24.9m.

SINGAPORE ended higher on a technical rebound follow-

ing Monday's losses on news that both the country's deputy prime ministers had cancer. The Straits Times Industrial Index rose 19.38 to 1,433.65 in volume of 111.2m shares against 130.4m.

SEOUL ended firmer in moderate trading on a technical rebound led by Keppco shares. The composite index closed 14.78 higher at 631.42 in turnover of Won440.98bn compared with Won370.85bn.

Keppco shares rose Won800, the daily upper limit, to Won20,500, on expectations that the company will permit direct but limited foreign investment at its shareholders' meeting on Friday.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 16 1992										FRIDAY NOVEMBER 13 1992										DOLLAR INDEX	
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year Ago (approx)						
Australia (98)	108.18	-1.8	105.56	85.34	89.43	104.41	-1.2	4.68	110.20	105.44	86.31	89.75	105.89	103.68	108.18	155.91						
Austria (19)	139.51	-1.0	136.12	110.08	115.33	115.22	+0.3	2.45	140.34	134.85	110.38	114.78	114.87	108.70	139.51	171.97						
Belgium (42)	132.53	-1.2	128.24	108.91	112.04	109.30	-0.2	5.84	137.23	131.30	107.47	111.78	108.32	104.94	132.74	236.14						
Canada (114)	112.52	-1.6	108.78	86.76	93.01	103.48	-1.1	3.37	114.32	106.38	89.53	93.10	104.59	142.12	112.52	142.26						
Denmark (34)	189.65	-2.0	184.80	157.50	165.03	165.36	-0.8	1.85	203.57	194.58	159.52	165.87	166.76	273.94	184.18	263.40						
Finland (15)	67.25	-3.6	65.61	53.05	55.59	71.20	-1.3	1.35	68.73	54.53	58.90	72.90	68.80	88.80	52.84	54.21						
France (99)	145.97	-2.5	142.33	115.07	120.57	122.64	-1.2	3.87	149.66	143.00	117.21	121.88	124.07	168.75	142.70	145.12						
Germany (64)	105.40	-1.6	103.82	83.95	87.98	87.96	-0.1	2.82	108.12	103.45	84.88	88.05	88.05	129.69	102.51	113.75						
Hong Kong (53)	235.92	-1.4	249.32	201.57	211.23	253.94	-1.4	3.55	259.05	247.87	202.89	210.99	257.14	282.28	178.98	173.17						
Ireland (16)	124.53	-1.9	121.50	98.24	102.94	105.29	-0.8	5.21	128.88	121.41	98.38	103.34	100.14	173.71	123.98	161.89						
Italy (77)	61.98	+1.0	60.48	48.90	51.24	62.77	+2.3	3.31	61.39	58.74	48.07	49.99	61.37	60.96	47.47	71.38						
Japan (472)	98.99	-1.8	96.59	78.05	81.51	78.08	-0.9	1.08	100.54	98.20	78.74	81.59	78.74	140.95	87.27	134.87						
Malaysia (69)	270.13	-1.3	271.37	219.40	229.90	270.20	-1.2	2.45	281.99	280.72	220.77	229.57	273.48	282.42	212.49	232.55						
Mexico (18)	1485.40	-1.3	1459.08	1179.69	1236.18	1063.00	-1.2	1.18	1514.54	1449.14	1198.18	1233.47	1512.97	1789.77	1168.49	1385.54						
Netherlands (25)	151.13	-1.2	147.48	119.22	124.90	123.33	+0.2	4.00	152.88	146.38	119.81	124.59	123.08	169.70	147.88	147.88						
Norway (12)	30.75	-0.9	30.75	26.75	27.25	27.25	-0.1	2.82	31.45	110.27	68.98	90.45	94.38	200.36	146.89	146.89						
Norway (12)	130.39	-0.9	127.22	102.86	107.78	114.41	+0.5	2.10	151.55	125.07	103.03	107.14	113.08	192.95	130.39	176.15						
Singapore (38)	195.49	-2.6	190.74	154.22	161.93	147.38	-2.4	2.24	200.89	192.03	157.18	163.45	159.98	268.28	179.65	203.02						
South Africa (98)	143.03	+0.5	138.98	112.83	118.58	146.26	+0.0	3.50	142.29	136.15	111.14	115.88	144.19	253.03	138.37	207.12						
Sweden (31)	110.01	-1.6	107.34	86.79	90.94	94.88	+0.5	6.23	111.07	105.27	86.98	90.45	94.38	161.72	107.10	148.39						
Switzerland (60)	156.96	-0.3	153.15	123.83	127.78	139.07	-0.7	2.82	157.37	150.57	124.25	128.17	137.33	200.36	146.89	146.89						
Switzerland (60)	106.61	-2.0	103.05	85.33	87.32	94.12	-0.9	2.27	106.44	103.75	84.94	88.33	94.96	122.37	86.99	98.20						
United Kingdom (228)	161.28	-2.6	157.83	127.88	133.74	157.93	-0.7	4.96	168.16	158.98	130.21	135.31	158.98	200.36	161.86	158.98						
USA (522)	172.07	-0.4	167.89	135.75	142.28	172.07	-0.4	2.96	172.71	165.26	136.27	146.07	172.71	173.09	160.92	158.98						
Australia (98)	132.39	-2.0	128.17	104.44	108.44	119.04	-0.4	3.96	135.08	129.25	106.79	110.02	110.47	156.88	131.85	142.74						
Europe (102)	104.83	-0.9	102.43	115.08	120.00	121.88	+0.5	2.89	147.22	140.86	115.20	119.90	121.26	185.21	141.24	142.74						
North America (713)	104.32	-1.6	101.79	82.30	86.24	83.93	-0.5	1.44	105.99	101.41	83.01	86.32	94.71	141.97	93.70	138.20						
Pacific Asia (143)	168.48	-0.8	164.29	124.63	126.31	126.31	-0.7	2.96	168.48	161.79	124.63	126.31	126.31	168.48	138.20	138.20						
Pacific Asia (143)	168.38	-0.4	164.29	124.63	126.31	126.31	-0.4	2.98	169.09	161.79	124.63	126.31	126.31	168.48	138.20	138.20						
Europe Ex. UK (542)	117.05	-1.8	114.48	90.15	94.47	94.47	-1.4	3.46	118.08	111.07	90.93	94.56	97.28	122.81	112.24	120.00						
Pacific Ex. Japan (241)	115.27	-1.5	113.25	123.53	129.65	147.44	-1.3	3.67	119.33	112.94	124.98	129.94	146.33	172.00	140.34	140.34						
Pacific Ex. Japan (241)	115.27	-1.5	113.25	123.53	129.65	147.44	-1.3	3.67	119.33	112.94	124.98	129.94	146.33	172.00	140.34	140.34						
World Ex. UK (1973)	131.86	-1.0	128.68	104.03	109.01	118.83	-0.5	2.76	132.17	127.12	104.30	108.15	111.92	141.34	116.18	141.34						
World Ex. So. Af. (2147)	134.52	-1.2	131.25	106.13	111.21	121.75	-0.5	2.76	132.10	130.22	106.80	110.85	122.42	153.05	130.04	141.34						
World Ex. Japan (1726)	154.45	-1.0	150.70	121.86	127.70	147.70	-0.4	3.33	156.02	149.28	122.21	127.09	148.35	165.40	150.91	152.46						
The World Index (2705)	134.47	-1.31	131.20	106.08	111.16	122.02	-0.5	2.77	136.03	130.16	106.54	110.79	122.88	153.70	130.66	145.45						